State of California:

Financial Report
Year Ended June 30, 1995

February 1996
95001

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February 28, 1996 95001

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its Independent Auditors' Report on the State of California's general purpose financial statements for the year ended June 30, 1995. These financial statements are presented on a basis in conformity with generally accepted accounting principles (GAAP). The financial statements show that the State's General Fund generated approximately $600 million more in revenues than it spent for fiscal year ended June 30, 1995. However, the General Fund ended the fiscal year with a fund deficit of $1.1 billion. The GAAP basis statements include all liabilities owed by the State while the budgetary basis statements that are used to report on the State's budget do not reflect all liabilities.

We conducted the audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1995, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 81 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 87 percent and 91 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 95 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities is based solely upon the reports of the other auditors.

We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of the State of California as of June 30, 1995, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with government auditing standards, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report.

BUREAU OF STATE AUDITS

Sally L. Filliman

SALLY L. FILLIMAN, CPA
Deputy State Auditor

December 15, 1995

General Purpose Financial Statements

Combined Balance Sheet

All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1995
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS:					
Cash and pooled investments (Note 3)	$ 684,095	$ 4,499,708	$ 266,519	$ 3,148,198	$ 217,756
Investments (Note 3)	—	—	18,531	3,587,295	—
Amount on deposit with U.S. Treasury	—	—	—	—	—
Receivables (net)	165,449	344,633	8,892	98,622	2,210
Due from other funds (Note 4)	4,569,122	1,772,649	21,225	218,322	219,198
Due from primary government	—	—	—	—	—
Due from other governments	53,973	4,671,704	—	46,761	2,886
Prepaid expenses	297,821	292,947	19	20,986	14,955
Inventory, at cost	—	—	—	19,908	67,036
Net investment in direct financing leases (Note 6)	—	—	—	3,115,450	—
Advances and loans receivable	1,883,948	1,131,581	—	2,999,847	2,300
Deferred charges	—	—	—	1,034,277	—
Fixed assets (Note 7)	—	—	—	5,735,057	257,225
Others assets	1,556	3,657	—	44,194	10,535
Amount to be provided for retirement of long-term obligations	—	—	—	—	—
Total Assets	**$ 7,655,964**	**$ 12,716,879**	**$ 315,186**	**$ 20,068,917**	**$ 794,101**

The accompanying notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type			Total	Component Units		Total
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government (Memorandum Only)	University of California	Special Purpose Authorities	Reporting Entity (Memorandum Only)
$ 15,960,903	—	—	**$ 24,777,179**	$ 3,469,543	$ 618,875	**$ 28,865,597**
144,932,398	—	—	**148,538,224**	23,950,220	6,921,067	**179,409,511**
2,319,760	—	—	**2,319,760**	—	—	**2,319,760**
8,908,771	—	—	**9,528,577**	1,438,392	229,565	**11,196,534**
7,505,254	—	—	**14,305,770**	110,970	610	**14,417,350**
—	—	—	**—**	223,542	6,668	**230,210**
154,723	—	—	**4,930,047**	94,660	7	**5,024,714**
39,849	—	—	**666,577**	—	16	**666,593**
—	—	—	**86,944**	94,810	—	**181,754**
—	—	—	**3,115,450**	—	—	**3,115,450**
2,525,041	—	—	**8,542,717**	13,614	3,254,231	**11,810,562**
—	—	—	**1,034,277**	61,551	—	**1,095,828**
—	$ 14,378,710	—	**20,370,992**	12,613,676	540,067	**33,524,735**
113,074	—	—	**173,016**	293,511	362,834	**829,361**
—	—	$ 20,173,105	**20,173,105**	—	—	**20,173,105**
$ 182,459,773	**$ 14,378,710**	**$ 20,173,105**	**$ 258,562,635**	**$ 42,364,489**	**$ 11,933,940**	**$ 312,861,064**

The accompanying notes to the financial statements are an integral part of this statement.

Combined Balance Sheet

All Fund Types, Account Groups and Discretely Presented Component Units (cont'd)

June 30, 1995
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES:					
Accounts payable	$ 629,914	$ 766,676	$ 26,733	$ 176,161	$ 78,609
Due to other funds (Note 4)	2,215,810	4,636,337	31,281	423,395	86,178
Due to component units (Note 4)	188,555	87,283	—	1,402	24,716
Due to other governments	1,029,492	1,548,136	11,009	97,261	42
Dividends payable	—	—	—	—	—
Advances from other funds	338,714	44,386	1,077	225,721	88,540
Tax overpayments	—	2,748	—	—	—
Benefits payable	—	—	—	86,592	—
Deposits	5	11,834	—	6,354	1,467
Contracts and notes payable (Note 8)	4,000,000	—	—	55,453	69,303
Lottery prizes and annuities	—	—	—	2,285,613	—
Compensated absences payable (Note 10)	90,116	—	—	32,620	35,253
Certificates of participation and other borrowings (Note 11)	—	—	—	—	—
Net assets available for benefits	—	—	—	—	—
Capital lease obligations (Note 12)	—	—	—	—	34,249
Advance collections	46,525	92,050	—	364,020	127,461
General obligation bonds payable (Note 13)	—	—	—	4,233,490	—
Revenue bonds payable (Note 14)	—	—	—	7,763,463	—
Interest payable	215,520	—	15,356	171,421	—
Other liabilities	37,280	57,295	—	2,016	2,850
Total Liabilities	**8,791,931**	**7,246,745**	**85,456**	**15,924,982**	**548,668**
FUND EQUITY:					
Contributed capital (Note 1J)	—	—	—	214,792	110,271
Investment in general fixed assets (Notes 1J,7)	—	—	—	—	—
Retained earnings					
Reserved for regulatory requirements (Note 1J)	—	—	—	161,739	—
Unreserved (Note 1J)	—	—	—	3,767,404	135,162
Total Retained Earnings	—	—	—	**3,929,143**	**135,162**
Fund Balances					
Reserved					
Reserved for encumbrances (Note 1J)	334,035	1,432,701	121,019	—	—
Reserved for advances and loans (Note 1J)	1,883,948	1,131,581	—	—	—
Reserved for pension benefits (Note 1J)	—	—	—	—	—
Reserved for continuing appropriations (Note 1J)	145,757	2,449,365	54,682	—	—
Reserved for other specific purposes (Notes 1J, 16A)	—	—	—	—	—
Total Reserved	**2,363,740**	**5,013,647**	**175,701**	—	—
Unreserved					
Budgetary basis undesignated-available for appropriation (deficit) (Notes 1J, 2)	(2,555,547)	(233,122)			
Budgetary to GAAP adjustments (Note 2)	(944,160)	689,609			
Undesignated (Deficit) (Note 1J)	**(3,499,707)**	**456,487**	**54,029**	—	—
Total Fund Equity (Deficit) (Notes 1J, 16B)	**(1,135,967)**	**5,470,134**	**229,730**	**4,143,935**	**245,433**
Total Liabilities and Fund Equity	**$ 7,655,964**	**$ 12,716,879**	**$ 315,186**	**$ 20,068,917**	**$ 794,101**

The accompanying notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type				Component Units		
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Primary Government (Memorandum Only)	University of California	Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
$ 5,485,940	—	—	**$ 7,164,033**	$ 1,133,398	$ 111,245	**$ 8,408,676**
6,440,052	—	$ 472,931	**14,305,984**	111,071	294	**14,417,349**
—	—	681,581	**983,537**	—	—	**983,537**
12,377,465	—	—	**15,063,405**	—	—	**15,063,405**
—	—	—	**—**	—	105,500	**105,500**
1,768,887	—	—	**2,467,325**	13,513	—	**2,480,838**
1,138,988	—	—	**1,141,736**	—	—	**1,141,736**
363,067	—	—	**449,659**	—	4,891,291	**5,340,950**
2,835,685	—	—	**2,855,345**	390,804	—	**3,246,149**
—	—	—	**4,124,756**	—	44,925	**4,169,681**
—	—	—	**2,285,613**	—	—	**2,285,613**
—	—	1,149,321	**1,307,310**	257,285	19,952	**1,584,547**
—	—	151,890	**151,890**	700,711	—	**852,601**
—	—	—	**—**	23,375,830	—	**23,375,830**
—	—	2,248,201	**2,282,450**	1,247,121	—	**3,529,571**
49,129	—	—	**679,185**	—	262,628	**941,813**
—	—	14,843,814	**19,077,304**	—	—	**19,077,304**
—	—	242,670	**8,006,133**	1,891,879	3,750,980	**13,648,992**
—	—	—	**402,297**	—	97,374	**499,671**
1,378,808	—	382,697	**1,860,946**	—	378,609	**2,239,555**
31,838,021	**—**	**20,173,105**	**84,608,908**	**29,121,612**	**9,662,798**	**123,393,318**
—	—	—	**325,063**	—	—	**325,063**
—	$ 14,378,710	—	**14,378,710**	9,150,598	—	**23,529,308**
—	—	—	**161,739**	—	469,996	**631,735**
—	—	—	**3,902,566**	—	1,801,146	**5,703,712**
—	**—**	**—**	**4,064,305**	**—**	**2,271,142**	**6,335,447**
—	—	—	**1,887,755**	—	—	**1,887,755**
490,443	—	—	**3,505,972**	—	—	**3,505,972**
145,405,068	—	—	**145,405,068**	—	—	**145,405,068**
—	—	—	**2,649,804**	—	—	**2,649,804**
4,726,241	—	—	**4,726,241**	2,007,910	—	**6,734,151**
150,621,752	**—**	**—**	**158,174,840**	**2,007,910**	**—**	**160,182,750**
—	**—**	**—**	**(2,989,191)**	**2,084,369**	**—**	**(904,822)**
150,621,752	**14,378,710**	**—**	**173,953,727**	**13,242,877**	**2,271,142**	**189,467,746**
$ 182,459,773	**$ 14,378,710**	**$ 20,173,105**	**$ 258,562,635**	**$ 42,364,489**	**$ 11,933,940**	**$ 312,861,064**

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1995
(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES:					
Taxes	$ 40,978,881	$ 3,961,315	—	$ 5,475,604	**$ 50,415,800**
Intergovernmental	—	22,933,080	—	—	**22,933,080**
Licenses and permits	118,326	2,714,190	—	—	**2,832,516**
Natural resources	59,276	2,482	$ 8,130	—	**69,888**
Insurance premiums	—	—	—	720,749	**720,749**
Charges for services	160,968	234,845	—	8,654	**404,467**
Fees	207,418	1,161,642	—	111,451	**1,480,511**
Penalties	197,195	288,042	—	23,563	**508,800**
Interest	390,234	145,392	3,033	259,314	**797,973**
Other	72,363	609,553	2,503	840,049	**1,524,468**
Total Revenues	**42,184,661**	**32,050,541**	**13,666**	**7,439,384**	**81,688,252**
EXPENDITURES:					
Current:					
General government	1,904,744	1,990,488	537	899,302	**4,795,071**
Education	19,704,015	3,060,151	5,190	706,322	**23,475,678**
Health and welfare	13,562,777	19,772,939	—	5,307,800	**38,643,516**
Resources	482,956	1,249,133	3,753	27,268	**1,763,110**
State and consumer services	345,586	347,131	262	8,607	**701,586**
Business and transportation	25,725	5,473,677	31	1,389	**5,500,822**
Correctional programs	3,233,609	56,584	—	—	**3,290,193**
Property tax relief	472,710	2,900	—	—	**475,610**
Capital outlay	—	63,279	201,312	11,976	**276,567**
Debt service					
Principal retirement	934,986	6,694	12,720	—	**954,400**
Interest and fiscal charges	1,254,526	23,041	25,186	—	**1,302,753**
Total Expenditures	**41,921,634**	**32,046,017**	**248,991**	**6,962,664**	**81,179,306**
Excess (deficiency) of revenues over expenditures	**263,027**	**4,524**	**(235,325)**	**476,720**	**508,946**
OTHER FINANCING SOURCES (USES):					
Proceeds from general obligation bonds	—	1,087,800	417,800	—	**1,505,600**
Operating transfers in	597,917	1,984,539	60,267	320,004	**2,962,727**
Operating transfers out	(267,005)	(2,606,931)	(6,954)	(251,293)	**(3,132,183)**
Total Other Financing Sources (uses)	**330,912**	**465,408**	**471,113**	**68,711**	**1,336,144**
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	**593,939**	**469,932**	**235,788**	**545,431**	**1,845,090**
Fund Balances (Deficit), July 1, 1994, restated, (Note 1K)	**(1,729,906)**	**5,000,202**	**(6,058)**	**4,671,253**	**7,935,491**
Fund Balances (Deficit), June 30, 1995	**$ (1,135,967)**	**$ 5,470,134**	**$ 229,730**	**$ 5,216,684**	**$ 9,780,581**

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance Budgetary Basis - Budget and Actual

General Fund

Year Ended June 30, 1995
(Amounts in thousands)

	Budget (Note 2B)	Actual Budget Basis	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	—	$ 41,038,764	—
Licenses and permits	—	116,991	—
Natural resources	—	60,557	—
Charges for services	—	77,797	—
Fees	—	206,540	—
Penalties	—	200,132	—
Interest	—	386,368	—
Other	—	288,197	—
Total Revenues	—	42,375,346	—
EXPENDITURES:			
Current			
General government	$ 1,540,580	1,496,899	$ 43,681
Education	19,825,512	19,807,085	18,427
Health and welfare	14,166,410	13,839,607	326,803
Resources	483,297	476,411	6,886
State and consumer services	351,321	345,848	5,473
Business and transportation	42,430	38,604	3,826
Correctional programs	3,343,349	3,266,002	77,347
Property tax relief	485,441	480,431	5,010
Debt service			
Principal retirement	1,192,550	1,192,550	—
Interest and fiscal charges	1,069,721	996,906	72,815
Total Expenditures	$ 42,500,611	41,940,343	$ 560,268
OTHER FINANCING SOURCES (USES):			
Operating transfers in	—	1,713,036	—
Operating transfers out	—	(1,489,699)	—
Net Other Financing Sources (Uses)	—	223,337	—
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	—	658,340	—
Fund Balance (Deficit), July 1, 1994, restated	—	(1,052,164)	—
Fund Balance (Deficit), June 30, 1995	—	$ (393,824)	—

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis - Budget and Actual

Special Revenue Funds

Year Ended June 30, 1995
(Amounts in thousands)

	Budget (Note 2B)	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	—	$ 162,243	—
Intergovernmental	—	23,500,385	—
Licenses and permits	—	2,697,582	—
Natural resources	—	61	—
Insurance premiums	—	234,845	—
Fees	—	1,157,740	—
Penalties	—	288,042	—
Interest	—	144,857	—
Other	—	625,190	—
Total Revenues	—	**28,810,945**	—
EXPENDITURES:			
Current			
General government	$ 2,169,492	2,007,912	$ 161,580
Education	3,213,144	3,175,276	37,868
Health and welfare	21,215,145	19,775,083	1,440,062
Resources	1,434,522	1,315,415	119,107
State and consumer services	391,498	344,287	47,211
Business and transportation	7,175,720	6,685,400	490,320
Correctional programs	57,955	56,584	1,371
Property tax relief	2,900	2,900	—
Capital outlay	164,402	63,279	101,123
Debt service			
Principal retirement	131,808	128,701	3,107
Interest and fiscal charges	73	72	1
Total Expenditures	**$ 35,956,659**	**33,554,909**	**$ 2,401,750**
OTHER FINANCING SOURCES (USES):			
Operating transfers in	—	13,166,642	—
Operating transfers out	—	(9,818,694)	—
Net Other Financing Sources (Uses)	—	**3,347,948**	—
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	—	**(1,396,016)**	—
Fund Balances, July 1, 1994, restated	—	**7,625,580**	—
Fund Balances, June 30, 1995	—	**$ 6,229,564**	—

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings / Fund Balances

All Proprietary Fund Types, Pension Trust Funds, and Special Purpose Authorities

Year Ended June 30, 1995
(Amounts in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Pension Trust		Special Purpose Authorities	
OPERATING REVENUES:						
Lottery ticket sales	$ 2,166,121	—	—	$ 2,166,121	—	$ 2,166,121
Service and sales	1,007,718	$ 1,015,248	—	2,022,966	$ 107,074	2,130,040
Earned premiums (net)	25,487	—	—	25,487	1,456,788	1,482,275
Investment and interest	285,340	—	$ 20,584,341	20,869,681	293,606	21,163,287
Contributions	—	—	5,763,543	5,763,543	200	5,763,743
Rent	234,450	—	—	234,450	17,461	251,911
Other	3,614	43	4,179	7,836	6,001	13,837
Total Operating Revenues	3,722,730	1,015,291	26,352,063	31,090,084	1,881,130	32,971,214
OPERATING EXPENSES:						
Lottery prizes	1,075,189	—	—	1,075,189	—	1,075,189
Personal services	319,058	305,816	69,663	694,537	117,640	812,177
Supplies	64,735	13,251	—	77,986	2,396	80,382
Services and charges	557,374	680,361	32,454	1,270,189	231,482	1,501,671
Depreciation	74,921	54,106	—	129,027	9,477	138,504
Benefit payments	45,925	—	6,198,558	6,244,483	1,034,403	7,278,886
Interest expense	474,117	3,968	—	478,085	234,404	712,489
Refunds	—	—	198,000	198,000	—	198,000
Amortization of deferred charges	49,358	—	—	49,358	2,886	52,244
Total Operating Expenses	2,660,677	1,057,502	6,498,675	10,216,854	1,632,688	11,849,542
Operating Income (Loss)	1,062,053	(42,211)	19,853,388	20,873,230	248,442	21,121,672
NON-OPERATING REVENUES (EXPENSES):						
Grants received	480	—	—	480	401	881
Grants provided	(14,937)	—	—	(14,937)	—	(14,937)
Interest revenue	131,219	3,187	—	134,406	501,954	636,360
Interest expense and fiscal charges	(187,329)	(3,480)	—	(190,809)	(2,525)	(193,334)
Loss on early extinguishment of debt.	(7)	—	—	(7)	—	(7)
Other	(11,861)	(844)	—	(12,705)	5,579	(7,126)
Total Nonoperating Revenues (Expenses)	(82,435)	(1,137)	—	(83,572)	505,409	421,837
Income (Loss) Before Operating Transfers	979,618	(43,348)	19,853,388	20,789,658	753,851	21,543,509
OPERATING TRANSFERS:						
Operating transfers in	50,465	9,158	—	59,623	12,485	72,108
Operating transfers out	(147,937)	(3,552)	—	(151,489)	(8,733)	(160,222)
Payment to refunded bond escrow agent	(3,020)	—	—	(3,020)	—	(3,020)
Total Operating Transfers	(100,492)	5,606	—	(94,886)	3,752	(91,134)
Net Income (Loss)	879,126	(37,742)	19,853,388	20,694,772	757,603	21,452,375
Dividends paid	—	—	—	—	(339,092)	(339,092)
Lottery payments for education	(770,006)	—	—	(770,006)	—	(770,006)
Retained Earnings/Fund Balances, July 1, 1994	3,820,023	172,904 *	125,551,680 *	129,544,607	1,852,631 *	131,397,238
Retained Earnings/Fund Balances, June 30, 1995	$ 3,929,143	$ 135,162	$ 145,405,068	$ 149,469,373	$ 2,271,142	$ 151,740,515

* Restated (See Note 1K)

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Cash Flows

All Proprietary Fund Types and Special Purpose Authorities

Year Ended June 30, 1995
(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,062,053	$ (42,211)	$ 248,442
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:			
Interest expense on operating debt	5,206	3,968	234,404
Interest on investments	—	—	(67,832)
Depreciation	74,921	54,106	9,477
Accretion of capital appreciation bonds	8,864	—	10,115
Provisions and allowances	(2,031)	173	(1,004)
Accrual of deferred charges	4,429	—	—
Amortization of deferred credits	(3,784)	—	(3,362)
Amortization of discounts	5,128	—	5,784
Amortization of deferred charges	45,315	—	—
Other	2,974	4,990	—
Change in assets and liabilities			
Receivables	(24,767)	895	29,162
Due from other funds	66,739	47,773	(513)
Due from primary government	—	—	255
Due from other governments	(2,156)	3,108	2
Prepaid expense	(4,073)	16,978	(8)
Inventory	(5,882)	(14,811)	—
Net investment in direct financing leases	(681,743)	—	—
Advances and loans receivable	(1,092)	—	—
Other assets	34,728	(109)	(300,714)
Accounts payable	(4,043)	13,713	11,105
Due to other funds	12,159	(462)	(688)
Due to component units	—	(2,858)	—
Due to other governments	(63,622)	27	—
Benefits payable	13,319	—	(243,893)
Deposits	263	(33)	—
Lottery prizes and annuities	73,659	—	—
Compensated absences payable	1,124	2,885	19,041
Advance collections	11,936	(16,816)	(8,743)
Other liabilities	(686)	1,270	317,096
Total Adjustments	**(433,115)**	**114,797**	**9,684**
Net Cash Provided by (Used in) Operating Activities	**628,938**	**72,586**	**258,126**

Noncash Transactions are those portions of investing and financing activities that affected assets and liabilities but did not result in cash receipts or payments during the period. Internal service funds made non-cash transactions for installment purchases totaling $30 million to acquire equipment.

The accompanying notes to the financial statements are an integral part of this statement.

Combined Statement of Cash Flows (cont'd)

All Proprietary Fund Types and Special Purpose Authorities

Year Ended June 30, 1995
(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service	Special Purpose Authorities
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Dividends paid	—	—	(306,592)
Advances from other funds	2,669	27,300	—
Return of advances from other funds	(27)	(1,404)	—
Proceeds from general obligation bonds	385,530	—	—
Proceeds from revenue bonds	—	—	1,378,835
Retirement of general obligation bonds	(215,240)	—	—
Retirement of revenue bonds	(167,370)	—	(807,489)
Interest paid on operating debt	(3,190)	—	(222,839)
Operating transfers in	48,305	9,158	4,512
Operating transfers out	(54,753)	(1,242)	(4,702)
Grants provided	(14,937)	—	—
Grants received	—	—	396
Other revenue (expenses)	(1,390)	38	—
Lottery payments for education	(796,275)	—	—
Net Cash Provided by (Used in) Noncapital Financing Activities	**(816,678)**	**33,850**	**42,121**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Unamortized water project costs	(13,363)	—	—
Acquisition of intangible assets	—	(1,743)	—
Acquisition of fixed assets	(289,042)	(31,470)	(33,241)
Proceeds from sale of fixed assets	5,428	2,373	—
Advances from other funds	290,233	—	—
Return of advances from other funds	(291,633)	(5,237)	—
Proceeds from notes payable	131,072	—	—
Principal paid on notes payable	(136,800)	(18,900)	(75)
Payment of capital lease obligations	—	(1,549)	—
Proceeds from general obligation bonds	1,400	—	—
Retirement of general obligation bonds	(35,630)	—	—
Proceeds from revenue bonds	786,509	—	—
Retirement of revenue bonds	(226,756)	—	—
Interest paid	(198,659)	(7,447)	(2,524)
Contributed capital	2,273	757	—
Grants received	480	—	5
Operating transfers in	2,160	—	7,973
Operating transfers out	(5,797)	—	(4,032)
Payment of deferred costs	(16,934)	—	—
Other costs	—	(372)	—
Net Cash Provided by (Used In) Capital and Related Financing Activities	**4,941**	**(63,588)**	**(31,894)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(866,922)	—	(240,645)
Advances and loans provided	(174,415)	(4,400)	(1,013,945)
Collection of advances and loans	46,082	43,400	201,693
Proceeds from maturity and sale of investments	287,753	—	876
Interest and gains on investments	124,958	2,090	569,769
Other	71	—	5,579
Net Cash Provided by (Used in) Investing Activities	**(582,473)**	**41,090**	**(476,673)**
Net Increase (Decrease) in Cash and Pooled Investments	**(765,272)**	**83,938**	**(208,320)**
Cash and Pooled Investments at July 1, 1994, restated	**3,913,470**	**133,818**	**827,195**
Cash and Pooled Investments at June 30, 1995	**$ 3,148,198**	**$ 217,756**	**$ 618,875**

The accompanying notes to the financial statements are an integral part of this statement.

University of California Funds
Balance Sheet

June 30, 1995
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Retirement System Funds	Total Funds
ASSETS						
Cash and pooled investments	$ 1,834,630	$ 44,068	$ 300,302	$ 1,025,478	$ 265,065	**$ 3,469,543**
Investments	—	—	1,126,682	—	22,823,538	**23,950,220**
Receivables (net)	894,223	255,709	7,131	—	281,329	**1,438,392**
Due from other funds	—	—	—	—	110,970	**110,970**
Due from primary government	223,542	—	—	—	—	**223,542**
Due from other governments	94,660	—	—	—	—	**94,660**
Inventory, at cost	94,810	—	—	—	—	**94,810**
Advances and loans receivable	142	—	13,472	—	—	**13,614**
Deferred charges	61,551	—	—	—	—	**61,551**
Fixed assets	—	—	—	12,613,676	—	**12,613,676**
Other assets	280,455	—	—	13,056	—	**293,511**
Total Assets	**$ 3,484,013**	**$ 299,777**	**$ 1,447,587**	**$ 13,652,210**	**$ 23,480,902**	**$ 42,364,489**
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	$ 982,917	—	$ 2,241	$ 43,168	$ 105,072	**$ 1,133,398**
Due to other funds	111,071	—	—	—	—	**111,071**
Advances from other funds	—	$ 2,000	—	11,513	—	**13,513**
Deposits	174,412	—	216,392	—	—	**390,804**
Compensated absences payable	257,285	—	—	—	—	**257,285**
Certificates of participation and other borrowings	—	—	—	700,711	—	**700,711**
Net assets available for benefits	—	—	—	—	23,375,830	**23,375,830**
Capital lease obligations	—	—	—	1,247,121	—	**1,247,121**
Revenue bonds payable	—	16,299	—	1,875,580	—	**1,891,879**
Total Liabilities	**1,525,685**	**18,299**	**218,633**	**3,878,093**	**23,480,902**	**29,121,612**
Fund Equity						
Investment in general fixed assets	—	—	—	9,150,598	—	**9,150,598**
Fund balances						
Reserved for other specific purposes	547,036	256,012	886,485	318,377	—	**2,007,910**
Undesignated	1,411,292	25,466	342,469	305,142	—	**2,084,369**
Total Fund Equity	**1,958,328**	**281,478**	**1,228,954**	**9,774,117**	—	**13,242,877**
Total Liabilities and Fund Equity	**$ 3,484,013**	**$ 299,777**	**$ 1,447,587**	**$ 13,652,210**	**$ 23,480,902**	**$ 42,364,489**

The accompanying notes to the financial statements are an integral part of this statement.

University of California - Current Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 1995
(Amounts in thousands)

REVENUES AND OTHER ADDITIONS:	
Tuition and fees	$ 916,737
Federal appropriations, grants, and contracts	1,316,951
State appropriations, grants, and contracts	1,950,868
Private gifts, grants, and contracts	443,477
Sales and services	
Educational activities	673,824
Auxiliary enterprises	521,474
Teaching hospitals	1,755,591
Local government	89,502
Major Department of Energy Laboratories	2,392,710
Other	488,135
Total Revenues and Other Additions	**10,549,269**
EXPENDITURES AND OTHER DEDUCTIONS:	
Instruction	1,719,757
Research	1,441,584
Public services	170,954
Academic support	756,749
Teaching hospitals	1,647,617
Student services	240,553
Institutional support	407,361
Operation and maintenance of plant	257,329
Student financial aid	381,844
Auxiliary enterprises	440,383
Major Department of Energy Laboratories	2,363,543
Other	40,188
Total Expenditures and Other Deductions	**9,867,862**
OTHER FINANCING SOURCES (USES):	
Transfers out	(503,721)
Net Increase (Decrease) in Fund Balance	**177,686**
Fund Balances, July 1, 1994	**1,780,642**
Fund Balances, June 30, 1995	**$ 1,958,328**

The accompanying notes to the financial statements are an integral part of this statement.

University of California
Statement of Changes in Fund Balances

Year Ended June 30, 1995
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues				
General	$ 3,619,323	—	—	—
Auxiliary enterprises and hospitals	2,277,065	—	—	—
Restricted gifts, grants, and contracts	4,164,746	$ 260	$ 17,725	$ 78,307
Investment and interest income	219,312	9,230	644	40,275
Net gain on sale of investments	(2,655)	—	24,864	27,067
Governmental grants and contracts	—	4,326	—	17,888
Student fees for debt service	—	—	—	9,090
Governmental appropriations	—	—	—	112,239
Expended for plant facilities (including $331,817 financed from current funds)	—	—	—	685,717
Retirement of indebtedness	—	—	—	129,136
Other	271,478	2,829	235	11,708
Total Revenues and Other Additions	**10,549,269**	**16,645**	**43,468**	**1,111,427**
EXPENDITURES AND OTHER DEDUCTIONS:				
Current fund expenditures	9,827,674	—	—	—
Plant fund expenditures	—	—	—	395,592
Debt service				
Principal retirement	—	—	—	129,136
Interest	—	—	—	209,229
Disposal of plant assets	—	—	—	190,988
Other	40,188	4,743	3,547	1,576
Total Expenditures and Other Deductions	**9,867,862**	**4,743**	**3,547**	**926,521**
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(503,721)	480	27,477	475,764
Net Increase (Decrease) in Fund Balances	**177,686**	**12,382**	**67,398**	**660,670**
Fund Balances, July 1, 1994	**1,780,642**	**269,096**	**1,161,556**	**9,113,447**
Fund Balances, June 30, 1995	**$ 1,958,328**	**$ 281,478**	**$ 1,228,954**	**$ 9,774,117**

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. As required by generally accepted accounting principles, these financial statements present the government and its component units.

Component units are organizations which are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. The following is a brief review of the two types of component units, blended and discretely presented, using these criteria.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and data from these units are combined with data of the primary government.

1. Building Authorities

The Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of $319 million have been eliminated from the combined balance sheet. Instead only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups.

2. Pension Funds

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits to past and present public employees in California. The membership includes employees of the State of California, school employees who do not hold a teaching certificate, employees of California public agencies, judges, and legislators. The CalPERS has its own name, has the right to buy, sell, or lease property in its own name, and can sue or be sued in its own name. It is a component unit of the State because a voting majority of the governing board consists of state public officers and appointees of state officers, and expenditures for support of the CalPERS are appropriated by the annual Budget Act. The CalPERS is reported in the fiduciary fund types.

The State Teachers' Retirement System (STRS) provides pension benefits to teachers and certain other employees of the California public school system. The STRS has its own name, can convey and sell property in its own name, and can sue and be sued in its own name. It is a component unit of the State because the State appoints a voting majority of the STRS' governing board, and expenditures for support of the STRS are appropriated by the annual Budget Act. In addition, the Legislature sets employer and employee contribution rates for the STRS. The STRS is reported in the fiduciary fund types.

3. Discretely Presented Component Units

Component units, that are discretely presented in the general purpose financial statements, are reported in separate columns in the combined financial statements to emphasize they are legally separate from the State government. Discretely presented component units primarily provide services to entities and individuals outside the State. For ease of presentation, the discretely presented component units, other than the University of California, are included in the statements under the heading of "Special Purpose Authorities."

The University of California was founded in 1868 as a public, state-supported land-grant institution. It was written into the State Constitution of 1879 as a public trust, to be administered by a governing board—the Regents of the University of California. The University of California is legally separate from the State. It is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act. The University of California is discretely presented in the financial statements. Information about the University of California concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 25A.

The Special Purpose Authorities are legally separate from the State. These authorities are presented in three separate groups: State Compensation Insurance Fund, Conduit Financing Authorities, and District Authorities. The inclusion of these authorities in the State's general purpose financial statements reflects the State's financial accountability for them. Information about special purpose authorities concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 25B.

B. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1995. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

An amount of $1.7 billion, which originally came from General Fund revenues and was ultimately spent in the University of California funds, is reported twice in the accompanying financial

statements. The University of California receives an annual appropriation from the State's General Fund. For the year ended June 30, 1995, approximately $1.7 billion was accrued or disbursed from the General Fund to the University of California. This amount is reported as expenditures in the General Fund and as revenues in the University of California unrestricted current funds.

C. Fund Accounting

The accounts of the State of California are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the cost involved is to be financed by user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The account groups are as follows:

The General Fixed Assets Account Group accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The General Long-Term Obligations Account Group accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

D. Measurement Focus and Basis of Accounting

Governmental Fund Types and Expendable Trust Funds are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and the unreserved fund balance is a measure of available spendable resources.

The accounts of the Governmental Fund Types and Expendable Trust Funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Tax revenues are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

The State's accounting practices include an exception to the modified accrual basis of accounting with respect to vacation-leave expenditures. These expenditures are recorded when paid because no satisfactory basis exists for determining the current liability. However, the liability for earned leave of academic-year faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 1 I.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types and Pension Trust Funds are accounted for on the flow of economic resources measurement

focus.

The accounts of the Proprietary Fund Types and Pension Trust Funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 3, to be cash equivalents.

E. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges. (See Note 6). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for the correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The Public Works Board has entered into various capital lease agreements with the University of California. The Public Works Board issues revenue bonds to finance the construction of these leased facilities. The Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments.

F. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts because these costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of the state water supply contracts.

G. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any fund, but of the government as a whole. Most often these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The general fixed assets account group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the accompanying financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the

general fixed assets account group.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation. (See Note 7). They are depreciated over their estimated useful lives ranging from three to one hundred years using the straight-line method of depreciation. Water projects, which represent 53.6 percent of the fixed assets of the enterprise funds, are depreciated over their service lives ranging from thirty to one hundred years. Toll bridges and California State University dormitory facilities, which represent 16.8 percent and 11.1 percent, respectively, of the fixed assets of the enterprise funds, are not depreciated.

H. Long-Term Obligations

The State reports long-term obligations of governmental funds in the General Long-Term Obligation Account Group. Long-term obligations consist of unmatured general obligation bonds, certain unmatured revenue bonds, long-term capital lease obligations and certificates of participation, liability for pension obligations, the liability for employees' compensated absences and worker's compensation claims, amounts owed for settled lawsuits, and the State's share of the unfunded University of California pension liability.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in Note 14. The General Fund has no legal liability for payment of principal and interest on revenue bonds. Except for the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

I. Other Obligations

The State entered into interest rate swap agreements to modify interest rates on the 1994-95 Revenue Anticipation Notes, Series B and C. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Compensated absences are accounted for in the general long-term obligations account group with the exception of costs associated with academic-year faculty of the California State University and of the special schools of the State Department of Education. These costs represent services rendered over a ten month period but are paid over a twelve month period. The balance of the amounts owed for services rendered are reported as a current liability in the State's General Fund. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

J. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of "Contributed Capital" and "Retained Earnings" for proprietary funds, certain "Component Units", "Investment in General Fixed Assets" for the general fixed assets account group and certain component units, and "Fund Balance" for governmental funds, trust

funds and component units.

"Contributed Capital" is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund or when a grant is received that is externally restricted to capital acquisition or construction.

"Investment in General Fixed Assets" represent fixed assets of the University of California that are restricted for specific purposes, and the State's investment in capital assets reported in the general fixed assets account group (See Note 7).

Retained earnings is divided into two sections; "Reserved for Regulatory Requirements" and "Unreserved." The reserved for regulatory requirements represent a segregation of the retained earnings in enterprise funds and certain component units for amounts which are unavailable for general use by the enterprise as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental and trust funds are divided into three sections: Reserved, Unreserved, and Undesignated. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds and component units are as follows:

> "Reserved for encumbrances" represents goods and services that are ordered but not received by the end of the year.
>
> "Reserved for advances and loans receivable" represents advances to other funds and the non current portion of loans receivable, that do not represent expendable available financial resources.
>
> "Reserved for pension benefits" represents pension trust fund reserves, which include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.
>
> "Reserved for continuing appropriations" represents the unencumbered balance of all appropriations whose period of availability extends beyond the period covered by this report, fiscal year ended June 30, 1995. These appropriations are legally segregated for a specific future use.
>
> "Reserved for other specific purposes" includes: trust and agency fund amounts of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

The Unreserved section provides budgetary basis information for the General Fund and special revenue funds on the amount available for appropriation at the end of the current fiscal year for the subsequent fiscal year's budget (See Note 2). The total of the

Undesignated-Unreserved section attempts to measure how much would be left over at the end of the current fiscal year for the subsequent fiscal year's budget were the government to budget in accordance with generally accepted accounting principles. The Undesignated amounts represent the net of total fund balance less reserves for governmental funds and certain component units.

K. Restatement of Beginning Fund Balance

Reasons for the restatement of beginning fund balances are summarized in Table 1.

Table 1

Schedule of Restated Fund Balances
(In Thousands)

	General	Special Revenue	Capital Projects	Internal Service	Expendable Trust	Pension Trust	Component Units
Fund balance/retained earnings, June 30, 1994, previously reported	$ (1,146,372)	$ 5,062,790	$ 44,406	$ 178,612	$ 4,671,253	$ 120,072,513	$ 1,567,537
Changes in fund type	—	—	(50,464)	(5,708)	16,665	—	(19,868)
Record new component units	—	—	—	—	—	—	304,962
Changes in accounting for liability K-14 schools	(261,190)	—	—	—	—	—	—
Implementation of GASB:							
Statement 10	(94,009)	(62,588)	—	—	—	—	—
Statement 21	(228,335)	—	—	—	(16,665)	—	—
Statement 25	—	—	—	—	—	5,479,167	—
Fund Balances/Retained Earnings, June 30, 1994, as restated	**$ (1,729,906)**	**$ 5,000,202**	**$ (6,058)**	**$ 172,904**	**$ 4,671,253**	**$ 125,551,680**	**$ 1,852,631**

The fund type classification of the Architecture Revolving Fund, the Unclaimed Property Fund and various building authorities were changed to better reflect the current operation of these funds. These changes between fund types had varying effects on the beginning fund balances because governmental and proprietary funds use a different basis of accounting.

Prior to fiscal year 1994-95, the unencumbered and reverted balances of certain appropriations that were restricted for future educational purposes were reserved within the fund balance of the General Fund. Beginning with the 1994-95 fiscal year, a liability will be recognized for the amount that previously had been reflected as reserved for other specific purposes. This change in accounting treatment is being made in order to match expenditures with the K-14 schools' share of General Fund revenues, as computed in accordance with Article XVI, Section 8 of the State Constitution (Proposition 98).

GASB Statement 10, "Accounting and Financial Reporting for Risk Financing and Related Issues" was implemented during fiscal year 1994-95. In order to not distort the current results of operations, the beginning fund balances have been restated by the amount of the June 30, 1994, liability for workers' compensation claims that were subsequently paid during the 1994-95 fiscal year.

GASB Statement 21, "Accounting for Escheat Property" was implemented during fiscal year 1994-95. The estimated amount of escheat property expected to be paid to claimants was reflected as a liability of the Unclaimed Property Fund, an expendable trust fund. This treatment results in the total liabilities of the fund exceeding the assets of the fund. This difference is reported as an Advance to the General Fund.

GASB Statement 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" was implemented by the California State Teachers' Retirement System during fiscal year 1994-95. The Statement requires that the prior year fund balance be restated to reflect the adoption of a method of accounting for investments at fair market value.

L. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

M. Memorandum Only Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Data

The State's annual budget is prepared on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each fiscal year. Under State law, the State cannot adopt a spending plan that exceeds anticipated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the budget act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1994-95 were legally made, and they are included in the budget data in the accompanying financial statements.

Appropriations are generally available for expenditure or encumbrance either in the fiscal year appropriated or for a period of three years if the legislation does not specify a period of availability. Some appropriations continue indefinitely and are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available.

Liabilities Exceeding Available Appropriations - On a budgetary basis, the State does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused a net decrease to the fund balance of $454 million.

Restatement of Budgetary Basis Fund Balance - The beginning fund balance of the General Fund on the budgetary basis is increased by $214 million to reflect the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

Other - Other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The following transactions that were not recorded on the budgetary basis caused a net decrease to the fund balance on the GAAP basis of $222 million. These transactions consisted of a $97 million long-term loan from another fund, a $94 million Workers' Compensation liability (See Note 17), a $90 million liability for earned leave compensation of academic-year faculty of the California State University and other special schools not accrued on the budgetary basis, offset by $76 million of bank and corporation taxes not accrued on the budgetary basis, and additional miscellaneous other adjustments totaling $17 million.

Table 2

General Fund Reconciliation of Budgetary Basis with GAAP Basis

As of and for the Year Ended June 30, 1995 (In Thousands)

		Adjustments to the Budgetary Basis					
	Budgetary Basis	Advances and Loans Receivable	Escheat Property	Liabilities Exceeding Available Appropriations	Restatement of Fund Balance	Other	GAAP Basis
ASSETS							
Cash and pooled investments	$ 684,095	—	—	—	—	—	$ 684,095
Receivables (net)	165,449	—	—	—	—	—	165,449
Due from other funds	6,285,544	$ (1,709,664)	—	—	—	$ (6,758)	4,569,122
Due from other governments	52,846	1,127	—	—	—	—	53,973
Prepaid expenses	280,101	—	—	—	—	17,720	297,821
Advances and loans receivable	2,851	1,883,948	—	—	—	(2,851)	1,883,948
Other assets	1,556	—	—	—	—	—	1,556
Total Assets	**$ 7,472,442**	**$ 175,411**	**—**	**—**	**—**	**$ 8,111**	**$ 7,655,964**
LIABILITIES							
Accounts payable	$ 652,977	—	—	$ 840	—	$ (23,903)	$ 629,914
Due to other funds	1,909,556	—	—	398,622	—	(92,368)	2,215,810
Due to component units	—	—	—	55,000	—	133,555	188,555
Due to other governments	1,004,992	—	—	—	—	24,500	1,029,492
Advances from other funds	—	—	$ 241,429	—	—	97,285	338,714
Deposits	5	—	—	—	—	—	5
Contracts and notes payable	4,000,000	—	—	—	—	—	4,000,000
Compensated absences payable	—	—	—	—	—	90,116	90,116
Advance collections	46,525	—	—	—	—	—	46,525
Interest payable	214,931	—	—	—	—	589	215,520
Other liabilities	37,280	—	—	—	—	—	37,280
Total Liabilities	**7,866,266**	**—**	**241,429**	**454,462**	**—**	**229,774**	**8,791,931**
FUND BALANCES							
Reserved							
Reserve for encumbrances	306,275	—	—	—	—	27,760	334,035
Reserve for advances and loans	1,709,691	$ 174,257	—	—	—	—	1,883,948
Reserve for continuing appropriations	145,757	—	—	—	—	—	145,757
Total Reserved	**2,161,723**	**174,257**	**—**	**—**	**—**	**27,760**	**2,363,740**
Unreserved							
Undesignated (deficit)	(2,555,547)	1,154	(241,429)	(454,462)	—	(249,423)	(3,499,707)
Total Fund Balances (Deficit)	**(393,824)**	**175,411**	**(241,429)**	**(454,462)**	**—**	**(221,663)**	**(1,135,967)**
Total Liabilities and Fund Balances	**$ 7,472,442**	**$ 175,411**	**—**	**—**	**—**	**$ 8,111**	**$ 7,655,964**
REVENUES							
Taxes	$ 41,038,764	—	—	—	$ (220,677)	$ 160,794	$ 40,978,881
Licenses and permits	116,991	—	—	—	1,335	—	118,326
Natural resources	60,557	—	—	—	2	(1,283)	59,276
Charges for services	77,797	—	—	—	2,218	80,953	160,968
Fees	206,540	—	—	—	878	—	207,418
Penalties	200,132	—	—	—	(2,937)	—	197,195
Interest	386,368	$ 1,952	—	—	1,941	(27)	390,234
Other	288,197	—	—	—	(126)	(215,708)	72,363
Total Revenues	**42,375,346**	**1,952**	**—**	**—**	**(217,366)**	**24,729**	**42,184,661**
EXPENDITURES							
General government	1,496,899	(344)	—	$ 398,622	(49,945)	59,512	1,904,744
Education	19,807,085	—	—	—	(112,280)	9,210	19,704,015
Health and welfare	13,839,607	(42,725)	—	840	(248,318)	13,373	13,562,777
Resources	476,411	—	—	—	6,545	—	482,956
State and consumer services	345,848	—	—	—	(262)	—	345,586
Business and transportation	38,604	(425)	—	—	(1,167)	(11,287)	25,725
Correctional program	3,266,002	—	—	(6,285)	(24,947)	(1,161)	3,233,609
Property tax relief	480,431	(6,907)	—	—	(814)	—	472,710
Principal retirement	1,192,550	—	—	—	—	(257,564)	934,986
Interest and fiscal charges	996,906	—	—	(9,791)	—	267,411	1,254,526
Total Expenditures	**41,940,343**	**(50,401)**	**—**	**383,386**	**(431,188)**	**79,494**	**41,921,634**
OTHER FINANCING SOURCES (USES)							
Operating transfers in	1,713,036	(112,184)	$ (13,094)	—	—	(989,841)	597,917
Operating transfers out	(1,489,699)	61,754	—	—	—	1,160,940	(267,005)
Net Other Financing Sources (Uses)	**223,337**	**(50,430)**	**(13,094)**	**—**	**—**	**171,099**	**330,912**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**658,340**	**1,923**	**(13,094)**	**(383,386)**	**213,822**	**116,334**	**593,939**
Fund Balances (Deficit), July 1,1994, restated	**(1,052,164)**	**173,488**	**(228,335)**	**(71,076)**	**(213,822)**	**(337,997)**	**(1,729,906)**
Fund Balances (Deficit), June 30, 1995	**$ (393,824)**	**$ 175,411**	**$ (241,429)**	**$ (454,462)**	**—**	**$ (221,663)**	**$ (1,135,967)**

3. Special Revenue Funds Reconciliation - Budgetary to GAAP

The beginning fund balance of the special revenue funds on the budgetary basis has been increased to include the authorized and unissued amount of certain general obligation bonds. This alternative presentation was chosen to more accurately present the budgetary basis fund balance. The beginning fund balance on the GAAP basis is not affected by this adjustment.

The primary differences between the budgetary basis accounting practices and GAAP for special revenue funds are listed below. The total budgetary basis fund balance is reconciled with the GAAP basis in Table 3.

Authorized and Unissued Bonds - General Obligation Bonds, that are not self-liquidating, are recorded as additions to the fund balance on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as bond proceeds.

Grant Commitments to Local Agencies - Grants to local agencies are generally recorded as encumbrances on the budgetary basis when the commitments are made. However, in accordance with GAAP, these commitments are not reported as encumbrances.

Encumbrances - In addition to the difference in accounting for certain commitments as encumbrances as discussed above, the State does not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis.

Advances and Loans Receivable - Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets.

Other - Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. These items include increasing liabilities for claims arising from lawsuits and various miscellaneous items.

Table 3

Special Revenue Funds Reconciliation of Budgetary Basis with GAAP Basis

June 30, 1995 (In Thousands)

Reconciliation Items	Amount
Budgetary basis fund balance	$ 6,229,564
Authorized and unissued bonds	(2,107,822)
Grant commitments to local agencies	776,819
Encumbrances	(791,277)
Advances and loans receivable	1,131,581
Other	231,269
GAAP Basis Total Fund Balance	**$ 5,470,134**

The budgetary basis undesignated fund balance available for appropriation represents the amount of funding available to finance the State's budgetary plan for the next year. However, there was a deficit in this account as of June 30, 1995. Thus, there was no funding available from the current year to finance the fiscal year 1995-96 budgetary plan as shown in Table 4.

Table 4

Reconciliation of Budgetary Basis Fund Balance with the Budgetary Basis Undesignated Available for Appropriation and GAAP Basis Undesignated Fund Balance
June 30, 1995 (In Thousands)

Reconciliation Items	General Fund	Special Revenue Funds
Budgetary Basis Fund Balances (Deficit)	**$ (393,824)**	**$ 6,229,564**
Reserved for encumbrances	(306,275)	(2,223,978)
Reserved for continuing appropriations	(145,757)	(4,238,708)
Reserved for advances and loans	(1,709,691)	—
Unreserved		
Budgetary basis undesignated available for appropriation (deficit)	**(2,555,547)**	**(233,122)**
GAAP Basis Adjustments:		
Advances and loans receivable	1,154	—
Compensated absences	(90,116)	—
Liabilities exceeding appropriations	(454,462)	—
Escheat property	(241,429)	—
Workers' compensation	(94,010)	(62,588)
Authorized and unissued bonds	—	(2,107,822)
Reserved for encumbrances	—	791,277
Reserved for continuing appropriations	—	1,789,343
Other	(65,297)	279,399
GAAP Basis Undesignated (Deficit)	**$ (3,499,707)**	**$ 456,487**

DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

NOTE 3. DEPOSITS AND INVESTMENTS

The State Treasurer's Office administers a pooled investment program. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The enterprise, trust and agency funds, and a building authority in the capital projects fund type also make separate investments.

As of June 30, 1995, the average remaining life of the securities in the pooled money investment account administered by the State

Treasurer's Office was approximately 305 days.

Further, the State Treasurer's Office has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

All **Demand and Time Deposits**, totaling approximately $438 million, that were held by financial institutions at year end were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, 1995, the State had amounts on deposit with fiscal agents totaling approximately $7.1 million. These deposits, which were for principal and interest payments due to bond holders, are not collateralized.

State statutes, bond resolutions, and investment policy resolutions allow the State to have **Investments** in United States government securities, Canadian government securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

As of June 30, 1995, the State had investments in mutual funds and guaranteed investment contracts totaling $1.9 billion. All remaining investments reported as of June 30, 1995, were insured or registered in the State's name or held by the State or an agent of the State in the State's name except for $694 million in the trust and agency funds, which were uninsured and unregistered investments held by the trust department or the agent of another party to the transaction and were not in the State's name. The types of investments reported at year end are representative of the types of investments made during the fiscal year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the fiscal year.

The market values of the investments in certain certificates of deposit, commercial paper, and repurchase agreements approximate their carrying values because of the short-term nature of those securities.

The investments of pension trust funds are reported at fair value (See Note 24). Investments of the Deferred Compensation Plan Fund are reported at market value. All other investments are reported at cost. For these investments, no loss is recorded when market values decline below cost, as such declines are considered temporary. Table 5 presents the carrying value and market value of the investments that were reported by the State on June 30, 1995.

Table 5

Schedule of State Investments
June 30, 1995 (In Thousands)

	Pooled Investments		Separately Invested Funds			
			Enterprise Funds		Trust and Agency Funds	
Investments	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Government Securities:						
U.S. and U.S. agency	$ 10,381,948	$ 10,477,128	$ 2,911,418	$ 3,185,653	$ 32,149,425	$ 32,140,127
Canadian government	—	—	—	—	595,944	595,944
Certificates of deposit	5,353,936	5,352,248	—	—	1,081,047	1,081,064
Banker's acceptances	1,616,484	1,636,676	—	—	—	—
Commercial paper	6,373,796	6,373,796	—	—	3,045,669	3,045,669
Corporate bonds	1,810,796	1,813,638	27,327	29,993	15,295,835	15,295,835
Mortgage loans and notes	—	—	—	—	9,878,387	9,878,387
Other debt securities	—	—	—	—	4,280,174	4,280,174
Repurchase agreements	792,670	792,670	—	—	375,000	375,000
Equity securities	—	—	—	—	66,751,901	66,751,923
Real estate	—	—	—	—	7,071,155	7,071,155
Mutual funds	—	—	3,000	3,109	998,336	998,336
Other investments	—	—	645,550	645,529	3,409,525	3,409,525
Total	**$ 26,329,630**	**$ 26,446,156**	**$ 3,587,295**	**$ 3,864,284**	**$ 144,932,398**	**$ 144,923,139**

At June 30, 1995, floating rate notes and mortgage-backed assets comprised less than 4 percent of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State's portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), which is a security backed by a pool of mortgages. The REMICs found in the State portfolio have a fixed principal payment schedule.

Investments totaling approximately $19 million held by a Building Authority and included in the capital projects fund type were insured or registered in the Authority's name or held by the Authority or an agent of the Authority in the Authority's name. These investments are not shown on Table 5.

The California Government Code allows the State to enter into **Reverse Repurchase Agreements**, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 1994-95, the State entered into 71 reverse repurchase agreements by

temporarily selling investments with a carrying value of approximately $5.9 billion. At June 30, 1995, the State did not have any reverse repurchase agreements outstanding.

NOTE 4. DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS, AND DUE TO COMPONENT UNITS - GENERAL FUND

The balances of Due from Other Funds, Due to Other Funds, and Due to Component Units are shown in Table 6.

Table 6

Schedule of Due from Other Funds, Due to Other Funds, and Due to Component Units - General Fund
June 30, 1995 (In Thousands)

	Due from Other Funds	Due to Other Funds	Due to Component Units
Retail Sales Tax Fund	$ 1,397,749	—	—
Personal Income Tax Fund	861,372	—	—
Estate Tax Fund	504,327	—	—
Health Care Deposit Fund	356,897	$ 854,844	—
Welfare Advance Fund	225,164	—	—
Insurance Tax Fund	202,057	—	—
Federal Trust Fund	167,596	—	—
Special Deposit Fund	103,693	—	—
State School Fund	—	774,374	—
Public Employees' Retirement Fund	—	399,006	—
State Compensation Insurance Fund	—	—	$ 100,678
University of California	—	—	87,877
All Others	750,267	187,586	—
Total	**$ 4,569,122**	**$ 2,215,810**	**$ 188,555**

NOTE 5. RESTRICTED ASSETS

Table 7 presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1995.

Table 7

Schedule of Enterprise Fund Restricted Assets
June 30, 1995 (In Thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Debt service	$ 411,454	$ 385,824	$ 833	$ 284
Construction	588,439	—	10,498	508
Deposits	6,354	—	—	—
Equipment repair and replacement	70,365	—	2,303	31
Operations	2,266	—	—	—
Other	6,797	—	—	—
Total	**$ 1,085,675**	**$ 385,824**	**$ 13,634**	**$ 823**

On June 30, 1995, $857 thousand in cash and pooled investments of the internal service funds were restricted for property and equipment acquisitions.

NOTE 6. NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (See Note 12). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for the correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The minimum lease payments to be received are summarized in Table 8.

Table 8

Schedule of State Public Works Board Lease Purchase Agreements
(In Thousands)

Year Ending June 30	State Agencies	University of California	Community Colleges	Total
1996	$ 240,361	$ 77,684	$ 23,590	$ 341,635
1997	241,440	80,321	26,544	348,305
1998	241,054	80,312	26,438	347,804
1999	228,293	80,307	26,439	335,039
2000	228,224	78,462	26,443	333,129
Thereafter	2,738,611	1,312,505	403,324	4,454,440
Total Minimum Lease Payments	**3,917,983**	**1,709,591**	**532,778**	**6,160,352**
Less unearned income	1,888,458	878,755	277,689	3,044,902
Net Investment in Direct Financing Leases	**$ 2,029,525**	**$ 830,836**	**$ 255,089**	**$ 3,115,450**

The Public Works Board has entered into various capital lease agreements with the University of California. The Public Works Board issues revenue bonds to finance the construction of these leased facilities. The Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments. At June 30, 1995, these bonds and the related net investment in direct financing leases, totaling approximately $1.1 billion and $831 million, respectively, are presented in the enterprise fund type. The University of California, which is also audited by other auditors, reported capital lease obligations of $1.1 billion. This amount represents the total liability for the revenue bonds issued by the Public Works Board to finance the construction of facilities for the University of California.

NOTE 7. FIXED ASSETS

Table 9 is a summary of changes in the general fixed assets account group for the year ended June 30, 1995.

Table 9

Schedule of General Fixed Asset Account Group
June 30, 1995 (In Thousands)

	Balance July 1, 1994	Additions	Deletions	Balance June 30, 1995
Land	$ 1,799,705	$ 68,903	$ 34,487	$ 1,834,121
Structures and improvements	8,188,033	543,623	28,452	8,703,204
Equipment	2,729,661	380,565	128,046	2,982,180
Construction in progress	949,776	166,099	256,670	859,205
Total	**$ 13,667,175**	**$ 1,159,190**	**$ 447,655**	**$ 14,378,710**

Table 10 summarizes the fixed assets of the enterprise funds and internal service funds as of June 30, 1995.

Table 10

Schedule of Proprietary Fund Type Fixed Assets
June 30, 1995 (In Thousands)

Fixed Assets	Enterprise	Internal Service
State water projects	$ 3,429,138	—
Toll facilities	871,784	—
Other land, improvements, buildings and equipment	774,122	$ 609,000
Construction in progress	1,792,671	—
Total Fixed Assets	**6,867,715**	**609,000**
Less: accumulated depreciation	(1,132,658)	(351,775)
Net Fixed Assets	**$ 5,735,057**	**$ 257,225**

NOTE 8. NOTES PAYABLE

In August 1994, the State issued $3 billion of Revenue Anticipation Notes (RANs). The issuance included fixed rate RANs (Series A) totaling $2.3 billion and variable rate RANs (Series B and C) totaling $700 million.

Prior to the issuance of the RANs, the State entered into interest rate swap agreements with six counterparties for $700 million of its variable rate 1994-95 RANs, Series B and C. Based on the swap agreements, the State owed interest calculated at fixed rates ranging from 4.18 percent to 4.27 percent to the counterparties to the swap. In return, the counterparties owed the State interest based on a variable rate that matched the rate required by the RANs. Only the net difference in interest payments was actually exchanged with the counterparties. The $700 million in note principal was not exchanged; it was only the basis on which the interest payments were calculated.

The State paid interest to the noteholders at the variable rates provided by the RANs. During the term of the swap agreements, the State effectively paid a fixed rate on the debt. The net increase in interest expenditures resulting from these agreements was $2 million. However, according to the State's Financial Advisor and Senior Underwriters of the 1994-95 RANs borrowing, by issuing the variable rate Series B and C RANs, the State achieved a lower true interest cost on its 1994-95 $3 billion RANs borrowing than it would have had it issued only fixed rate RANs and the use of interest rate swaps facilitated the use of the variable rate RANs.

The State has a commercial paper borrowing program of up to $150 million. Under this program, the State may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the program, the State entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. At June 30, 1995 and 1994, there were borrowings of $54 million and $60 million, respectively, outstanding under this program. The proceeds from the issuance of commercial paper are restricted to construction costs of certain State water projects, reimbursement of construction costs of certain State water projects, and interest and issuance costs of the commercial paper notes.

NOTE 9. LONG-TERM OBLIGATIONS

As of June 30, 1995, the State had obligations of a long-term nature totaling $20.2 billion that are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of unmatured general obligation bonds, unmatured revenue bonds, long-term capital lease obligations and certificates of participation, the liability for pension obligations, the liability for employees' compensated absences and workers' compensation claims, amounts owed for settled lawsuits, and the State's share of the unfunded University of California pension liability.

NOTE 10. COMPENSATED ABSENCES

As of June 30, 1995 the State's estimated liability for compensated absences related to accumulated vacation leave totaled to approximately $1.3 billion. Of this amount, $1.1 billion is reported in the General Long-Term Obligations Account Group, $68 million is reported in the proprietary fund types, and $90 million in the State's General Fund (See Note 1 I).

NOTE 11. CERTIFICATES OF PARTICIPATION

Debt service requirements for certificates of participation, which

are financed by lease payments from the General Fund, are shown in Table 11.

Table 11

Schedule of Debt Service Requirements for Certificates of Participation
(In Thousands)

Year Ending June 30	Principal	Interest	Total
1996	$ 19,835	$ 7,218	$ 27,053
1997	8,210	6,109	14,319
1998	8,690	5,626	14,316
1999	7,033	7,268	14,301
2000	6,875	7,718	14,593
Thereafter	101,247	91,117	192,364
Total	**$ 151,890**	**$ 125,056**	**$ 276,946**

NOTE 12. COMMITMENTS

A. Leases

The aggregate amount of lease commitments for facilities and equipment in effect as of June 30, 1995, is approximately $5.8 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The minimum lease commitments are summarized in Table 12.

Table 12

Schedule of Lease Commitments
(In Thousands)

Year Ending June 30	Operating Leases	Capital Leases	Total
1996	$ 262,404	$ 282,383	$ 544,787
1997	234,360	281,169	515,529
1998	207,661	265,250	472,911
1999	174,245	252,900	427,145
2000	117,577	253,316	370,893
Thereafter	413,160	3,081,514	3,494,674
Total Minimum Lease Payments	**$ 1,409,407**	**4,416,532**	**$ 5,825,939**
Less amount representing interest		2,134,082	
Present Value of Net Minimum Lease Payments		**$ 2,282,450**	

Lease expenditures for the year ended June 30, 1995, amounted to approximately $507 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board amounting to a present value of net minimum lease payments of $2 billion, which represents 88 percent

of the total present value of minimum lease payments. See Note 6.

Also included in the capital lease commitments are some lease-purchase agreements to acquire electronic data processing and other equipment.

Table 13 presents a summary of the capital lease commitments as of June 30, 1995.

Table 13

Schedule of Capital Lease Commitments

June 30, 1995 (In Thousands)

	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Leases with the State Public Works Board for			
California State Prison			
Coalinga	$ 203,410	$ 247,732	$ 451,142
Corcoran	230,161	128,190	358,351
Del Norte	232,749	146,438	379,187
Madera	125,460	104,213	229,673
Amador	114,128	56,289	170,417
Imperial-North	195,647	269,514	465,161
Imperial-South	205,895	283,631	489,526
Kern	46,173	19,604	65,777
California State University			
Bakersfield	20,308	21,697	42,005
Chico	15,088	15,878	30,966
Fresno	32,073	33,643	65,716
Fullerton	38,880	39,590	78,470
Hayward	2,236	1,913	4,149
Humbolt	7,640	7,912	15,552
Long Beach	80,337	75,580	155,917
Northridge	50,958	49,659	100,617
Pomona	34,133	35,961	70,094
Sacramento	24,264	25,128	49,392
San Bernardino	65,326	66,125	131,451
San Francisco	41,780	39,876	81,656
San Jose	25,036	16,497	41,533
San Luis Obispo	10,045	7,775	17,820
San Marcos	17,531	18,138	35,669
Various state energy efficiency projects			
Phase I	32,439	12,575	45,014
Phase II	38,130	19,230	57,360
Phase III	8,009	6,431	14,440
Phase IV	4,578	3,146	7,724
Department of Justice Buildings	61,230	61,383	122,613
Food & Agriculture Lab Buildings	16,616	15,014	31,630
Library & Courts Complex	24,589	32,063	56,652
Franchise Tax Board	24,675	27,633	52,308
Subtotal	**2,029,524**	**1,888,458**	**3,917,982**

Table 13

Schedule of Capital Lease Commitments - Continued
June 30, 1995 (In Thousands)

	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Leases with the Public Employees' Retirement System			
Board of Equalization Building	88,275	184,473	272,748
Leases with nonstate entities for:			
Department of General Services			
Telecommunications Division	6,806	11,461	18,267
Office of Buildings and Grounds	6,785	4,505	11,290
Health and Welfare Data Center			
Alhambra Blvd., Sacramento	3,761	1,741	5,502
S Street, Sacramento	24,517	10,116	34,633
Department of Motor Vehicles			
Escondido	1,652	725	2,377
Hanford	4,726	1,818	6,544
Napa	5,230	2,014	7,244
Placentia	2,600	686	3,286
Temecula	3,792	1,373	5,165
Turlock	4,762	1,815	6,577
Department of Corrections	10,733	3,114	13,847
Santa Ana Civic Center	3,004	1,364	4,368
Department of Justice:			
Eureka	846	103	949
Watsonville	1,916	479	2,395
California Highway Patrol			
Dublin	2,033	798	2,831
Indio	10,628	3,664	14,292
Jackson	3,028	977	4,005
Rancho Cucamonga	15,129	7,068	22,197
Santa Maria	7,132	3,150	10,282
Winterhaven	4,597	1,912	6,509
Los Angeles State Parking Facility	670	137	807
Department of Transportation	180	16	196
Equipment	40,124	2,115	42,239
Subtotal	**164,651**	**61,151**	**225,802**
Total Capital Leases	**$ 2,282,450**	**$ 2,134,082**	**$ 4,416,532**

The capital lease commitments presented in the previous table do not include lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to the State. Upon expiration of the leases, title will pass to the State. The State reports the costs of the buildings in the general fixed assets account group and the obligation associated with the buildings in the general long-term obligations account group. Accordingly, the State does not include lease receivables or capital lease obligations associated with these buildings in its financial statements.

Table 14 presents a summary of lease commitments for office buildings financed by building authorities.

Table 14

Schedule of Building Authorities Lease Commitments
June 30, 1995 (In Thousands)

	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Leases with Building Authorities:			
Los Angeles State Building Authority.........	$ 158,492	$ 116,148	$ 274,640
East Bay State Building Authority.............	116,750	108,706	225,456
California State University			
Headquarters Building Authority...........	4,503	4,369	8,872
San Francisco State Building Authority......	60,700	32,737	93,437
Total...	**$ 340,445**	**$ 261,960**	**$ 602,405**

B. Highway Construction

The State has made commitments of $3.0 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

C. Other

As of June 30, 1995, the State had other commitments totaling $2.1 billion. These commitments included loan and grant programs for housing, school building aid, and rail system and county jail construction totaling approximately $954 million. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The total commitments also include approximately $78 million for the rehabilitation of toll bridge facilities, approximately $909 million for the construction of water projects and the purchase of power, and up to $157 million for the operation and maintenance of the lottery's automated gaming system.

NOTE 13. GENERAL OBLIGATION BONDS

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the accompanying financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

Table 15 summarizes the changes in general obligation bond debt for the year ended June 30, 1995.

Table 15

Schedule of Change in General Obligation Bond Debt
(In Thousands)

	General Long-Term Obligations	Enterprise Funds	Totals
Balance July 1, 1994	$ 14,301,119	$ 4,097,430	$ 18,398,549
Additions	1,506,625	386,930	1,893,555
Deductions	(963,930)	(250,870)	(1,214,800)
Balance June 30, 1995	**$ 14,843,814**	**$ 4,233,490**	**$ 19,077,304**

On the following page, Table 16, shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1995.

Table 16

Schedule of General Obligation Bonds
June 30, 1995 (In Thousands)

	Outstanding	Authorized but Unissued
General Long-Term Obligations		
School Facilities	$ 5,094,829	$ 286,094
New Prison Construction	1,752,190	99,000
Higher Education Facilities	1,740,375	309,200
State School Building Lease-Purchase	1,108,325	—
Clean Air and Transportation Improvement	753,360	1,174,300
Passenger Rail and Clean Air	739,540	185,900
California Wildlife, Coastal, and Park Land Conservation	541,900	151,000
County Correctional Facility Capital Expenditure	408,325	2,000
County Correctional Facility Capital Expenditure and Youth Facility	360,335	89,000
County Jail Capital Expenditure	320,175	—
Housing and Homeless	302,345	—
Clean Water	273,795	—
California Park and Recreational Facilities	257,040	18,000
California Safe Drinking Water	241,490	74,000
Clean Water and Water Conservation	143,575	5,400
California Earthquake Safety and Housing Rehabilitation	120,015	—
California Parklands	113,480	—
Community Parklands	81,370	—
Water Conservation and Water Quality	80,200	57,000
State, Urban, and Coastal Park	70,155	4,000
Lake Tahoe Acquisitions	61,035	1,000
Fish and Wildlife Habitat Enhancement	56,230	5,000
California Library Construction and Renovation	49,370	21,000
State Beach, Park, Recreational and Historical Facilities	37,150	—
Clean Water and Water Reclamation	35,045	26,000
Water Conservation	31,830	27,000
Senior Center	27,500	—
Earthquake Safety and Public Building Rehabilitation	25,300	272,000
Health Science Facilities Construction Program	13,135	—
Community College Construction Program	2,000	—
Harbor Development	1,900	—
Recreation and Fish and Wildlife Enhancement	500	—
Total General Long Term Obligations	**14,843,814**	**2,806,894**
Enterprise Funds		
Veterans	3,002,695	254,370
California Water Resources Development	1,132,430	167,600
Hazardous Substance Cleanup	61,825	—
State School Building Aid	34,750	40,000
First Time Home Buyers	1,790	—
Total Enterprise Funds	**4,233,490**	**461,970**
Total General Obligation Bonds	**$ 19,077,304**	**$ 3,268,864**

Table 17 shows the debt service requirements for all general obligation bonds, including interest of $11.9 billion, as of June 30, 1995.

Table 17

Schedule of General Obligation Bonds Debt Service Requirements
June 30, 1995 (In Thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1996	$ 1,941,600	$ 497,904
1997	1,867,225	479,563
1998	1,727,773	451,442
1999	1,649,246	435,749
2000	1,581,245	439,977
Thereafter	14,887,599	5,003,846
Total	**$ 23,654,688**	**$ 7,308,481**

Early Extinguishment of Debt - In prior years, the State has defeased certain bonds by placing the proceeds of new bonds in irrevocable escrow in a special trust account with the State Treasury to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 1995, $130 million of bonds outstanding are considered defeased.

NOTE 14. REVENUE BONDS

Under State law, the California State University and Colleges Headquarters Building Authority (CSUHQ), the Los Angeles State Building Authority (LASBA), and the San Francisco State Building Authority (SFSBA) may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligation Account Group. The CSUHQ issues bonds for the purpose of acquiring and constructing buildings for public education purposes, including a headquarters building for the trustees. The LASBA and SFSBA issue bonds for the purpose of constructing state office buildings.

A lease with the Trustees of the California State University pays the principal and interest on the revenue bonds issued by the CSUHQ. Leases with the State pay the principal and interest on the revenue bonds issued by LASBA and SFSBA (See Note 1). The primary government has no legal liability for the payment of principal and interest on the revenue bonds of the CSUHQ, the LASBA, and the SFSBA.

Revenue bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds. Table 18 summarizes the changes in revenue bond debt for the year ended June 30, 1995.

Table 18

Schedule of Change in Revenue Bond Debt
(In Thousands)

	General Long-Term Obligations	Enterprise Funds	Totals
Balance July 1, 1994	$ 250,565	$ 7,357,926	$ 7,608,491
Additions	—	799,637	799,637
Deductions	(7,895)	(394,100)	(401,995)
Balance June 30, 1995	**$ 242,670**	**$ 7,763,463**	**$ 8,006,133**

The Department of Water Resources, the California State University, the California Transportation Commission, and the State Public Works Board issue revenue bonds to acquire, construct, or renovate state facilities, or to refund outstanding revenue bonds in advance. The Department of Veterans Affairs and the California National Guard issue revenue bonds allowing the State to make loans to finance the acquisition of farms and homes by California veterans and National Guard members. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Table 19 shows revenue bonds outstanding as of June 30, 1995.

Table 19

Schedule of Revenue Bonds Outstanding
June 30, 1995 (In Thousands)

	Amount
General Long-Term Obligations:	
Los Angeles State Building Authority	$ 180,335
San Francisco State Building Authority	60,700
California State University and Colleges Headquarters Building Authority	1,635
Subtotal: General Long-Term Obligations	**242,670**
Enterprise Funds:	
State Public Works Board	4,995,812
Department of Water Resources	1,939,263
Department of Veterans Affairs	434,545
California State University	324,983
California Transportation Commission	63,020
California National Guard	5,840
Subtotal: Total Enterprise Funds	**7,763,463**
Total Revenue Bonds	**$ 8,006,133**

Table 20 shows the debt service requirements for revenue bonds, including interest of $6.4 billion, as of June 30, 1995.

Table 20

Schedule of Revenue Bond Debt Service Requirements
(In Thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1996	$ 22,368	$ 689,994
1997	22,934	689,430
1998	23,229	703,475
1999	23,233	702,770
2000	23,233	694,105
Thereafter	266,886	10,797,413
Total	$ 381,883	$ 14,277,187

The schedule above includes a variable rate interest bond issued by the Department of Water Resources that is redeemable at par value. The interest rate is determined weekly as defined in the bond agreements but cannot exceed 12 percent per annum. The department may change the method of determining the interest rate on the bonds, as allowed under the various terms of the bond agreements. During the year ended June 30, 1995, the interest rate varied from 2.6 to 4.75 percent.

Early Extinguishment of Debt - In prior years, the Department of Water Resources, the Public Works Board, the California Transportation Commission, the California State University, and the Los Angeles State Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the assets and liabilities for the defeased bonds are not included in the accompanying financial statements. On June 30, 1995, $1.98 billion of bonds outstanding are considered defeased.

NOTE 15. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 1995 are presented in Table 21.

Table 21

Schedule of Major Tax Revenues
June 30, 1995 (In Thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 18,566,028	—	—
Sales and use	14,691,152	$ 3,236,394	—
Bank and corporation	5,702,187	—	—
Unemployment insurance	—	—	$ 3,014,937
Disability insurance	—	—	2,363,590
Insurance	1,000,743	—	—
Inheritance, estate, and gift	519,962	—	—
Cigarette and tobacco	173,359	501,179	—
Other	325,450	223,742	97,077
Total	**$ 40,978,881**	**$ 3,961,315**	**$ 5,475,604**

NOTE 16. FUND EQUITY

A. Expendable Trust Funds

The fund balance Reserved for Other Specific Purposes of $4.7 billion represents assets of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

B. Fund Deficits

Certain individual funds within the following major funds shown in Table 22 had deficits at June 30, 1995.

Table 22

Schedule of Fund Deficits
June 30, 1995 (In Thousands)

	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds
Business and Professions Regulatory and Licensing	$ 6,639	—	—	—
Environmental and Natural Resources	18,675	—	—	—
Federal Fund	7,181	—	—	—
Financing to Local Government	1,574	—	—	—
Unemployment Programs	4,313	—	—	—
Building Authority	—	$ 3,744	—	—
Natural Resource Acquisition and Enhancement	—	1,482	—	—
Prison Construction	—	65	—	—
Housing Loan	—	—	$ 1,516	—
Leasing of Public Assets	—	—	925	—
Architecture Revolving	—	—	—	$ 7,941
Water Resources Revolving	—	—	—	10,798
Hazardous Substance Cleanup	—	—	54,067	—
Miscellaneous	19,830	913	—	4,099
Total	**$ 58,212**	**$ 6,204**	**$ 56,508**	**$ 22,838**

OTHER NOTE DISCLOSURES

NOTE 17. WORKERS' COMPENSATION

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately $753 million as of June 30, 1995. The liability represents the estimated total cost of all open and known disability claims as of June 30, 1995. The estimates are based on established claims criteria such as age of the injured, occupation, and type of injury. It is included in the accompanying financial statements. Of the total, $94 million is included in the General Fund, $62 million in the special revenue fund type, $26 million in the proprietary fund types and $571 million in the general long-term obligations account group. Changes in the claims liabilities during fiscal year 1994-95 are shown in Table 23.

Table 23

Schedule of Change in the Liability for Workers' Compensation Claims
(In Thousands)

	Workers' Compensation Claims
Unpaid claims, July 1, 1994	$ 773,000
Incurred claims	161,000
Less: claim payments	(181,000)
Unpaid Claims, June 30, 1995	**$ 753,000**

NOTE 18. SEGMENT INFORMATION

Selected financial information by enterprise fund activity for major segments is shown in Table 24.

Table 24

Schedule of Enterprise Fund Activity by Major Segments

As of and for the Year Ended June 30, 1995 (In Thousands)

	Housing Loan	Water	School Building Aid	Toll Facilities	State University	Leasing of Public Assets	Lottery	Harbors and Watercraft	Health Facilities Construction	Other Enterprise
Operating revenue	$ 290,548	$ 526,513	$ 25,432	$ 138,250	$ 233,479	$ 234,858	$ 2,166,121	$ 14,546	$ 19,054	$ 73,929
Operating income (loss)	(38,531)	174,861	19,588	99,829	53,799	485	754,809	(19,233)	15,717	729
Net income (loss)	(29,574)	23,386	(21,490)	108,012	26,522	489	770,006	(29,284)	15,717	15,342
Property, plant, and equipment										
Additions	243	173,460	—	25,811	21,716	61,833	7,789	57	100	6,183
Deductions	(868)	(57,009)	(3,720)	—	(5,418)	(36,764)	(15,189)	—	—	(1,970)
Total assets	4,052,948	4,738,646	412,183	1,585,918	1,015,553	5,173,578	2,515,834	299,400	143,166	131,691
Bonds and other long term liabilities	(3,665,722)	(3,474,678)	(34,750)	(69,180)	(337,524)	(4,995,812)	(1,979,658)	—	—	(68,675)
Total equity	(292,548)	(1,047,893)	(287,078)	(1,508,832)	(604,580)	(37,285)	—	(185,992)	(142,375)	(37,352)

The primary sources of enterprise fund revenues are as follows:

Housing Loan - Interest charged on contracts of sale of properties to California veterans and to California National Guard members, loan origination fees, and interest on investments.

Water - Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid - Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.

Toll Facilities - Toll fees and interest earned on investments.

State University - Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets - Rental charges from the lease of public assets and interest earned on investments.

Lottery - Sale of lottery tickets.

Harbors and Watercraft - Fees related to boating activities.

Health Facilities Construction - Construction project fees, income from operations or proceeds of sales of property acquired by default of borrowers.

Other Enterprises - Canteen revenues, and processing fees charged by various other departments.

NOTE 19. CONTINGENT LIABILITIES

Litigation - The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1995, legal proceedings that were in progress at June 30, 1995, and that were settled or decided against the State as of December 15, 1995, and legal proceedings having a high probability of resulting in a decision against the State as of December 15, 1995, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the accompanying financial statements.

Following are the more significant lawsuits pending against the State:

The State is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control, (now succeeded by the Commission on State Mandates (Commission)). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. The case was then brought to the trial court by the State and later remanded to the Commission for redetermination. The Commission has since expanded the claim to include supplemental claims filed by seven other educational institutions; the issuance of a final consolidated decision is anticipated sometime after September 1996. To date, the Legislature has not appropriated funds. The liability to the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at over $1 billion.

The State is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts. Because the State is the present owner of the site, the State may be found liable. Present estimates of the cleanup range from $200 million to $800 million.

The State is a defendant in a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court has found liability in inverse condemnation and awarded damages of $500,000 to 12 sample plaintiffs. The State's potential liability to the remaining 3,000 plaintiffs from claims filed ranges from $800 million to $1.5 billion. An appeal has been filed.

The State is a defendant in *California Teachers Association v. Russell S. Gould, et al.*, where the petitioners are challenging a recharacterization of $1.083 billion of appropriations for fiscal year 1991-92 and $190 million in the 1992-93 fiscal year as emergency loans rather than Proposition 98 funds. The petitioners are seeking a declaration that all appropriated funds are Proposition 98 funds and, therefore, must be included in the minimum funding guarantee for schools. The trial court ruled that the appropriations are not Proposition 98 funds and should not be included in the minimum funding calculation in future years.

The petitioners also challenged the Legislature's appropriation of $973 million in the 1992-93 fiscal year and $787 million in the 1993-94 fiscal year to schools. The appropriations, which the Legislature called "emergency loans," were in excess of the Proposition 98 guarantee of minimum funding and the Legislature explicitly excluded those excess funds from being included in the future Proposition 98 minimum funding guarantee. The trial court found that amounts which the State appropriated to schools as loans, in excess of the Proposition 98 guarantee, were considered to be Proposition 98 funding and were required to be used to calculate the Proposition 98 requirement in future years. Moreover, the trial court found that the State cannot require schools to repay the appropriations which were characterized as loans. The parties are currently negotiating a settlement which will require court approval. An appeal is pending awaiting the outcome of the settlement. Notwithstanding the settlement, the State passed legislation that forgave $50 million of the loans as of June 30, 1995, and will forgive $100 million during fiscal year 1995-96. The $50 million is included as 1994-95 fiscal year expenditures of the General Fund.

The State is a defendant in *Parr, et al. v. State of California* where a number of state employees filed a complaint in federal court claiming that payment of wages in registered warrants violated the Fair Labor Standards Act (FLSA) on the premise that registered warrants were neither cash nor cash equivalents. In December 1992, the federal court ruled that the issuance of registered warrants is a violation of the FLSA. The court has since withdrawn its December 1992 ruling, and the parties continue to litigate to determine whether the issuance of registered warrants to employees violated the FLSA. If the State loses, the maximum amount of damages will be approximately $500 million.

The State is a defendant in three lawsuits and numerous administrative proceedings involving the exclusion of small business stock gains from certain taxes. The lead case is

Pearce Investments, Ltd., et al., (Gordon P. Getty Family Trust) v. Franchise Tax Board. In the event of an adverse outcome, the effect on the State will be dependent upon the rationale for the decision and the subsequent application by the courts. However, the State could be required to refund an estimated $500 million.

The State is a defendant in two lawsuits challenging the transfer of monies from special fund accounts within the State Treasury to the State's General Fund pursuant to the Budget Acts of 1991, 1992, 1993, and 1994. Plaintiffs in the case of *Malibu Video Systems, et al. v. Kathleen Brown*, et al. allege in the state court action that the monetary transfers violated various state statutes and provisions of the State constitution. In the companion federal case, plaintiffs allege that the monetary transfers violated the Equal Protection Clause of the United States Constitution. The plaintiffs seek to have the transfers reversed and the monies, allegedly totaling approximately $956 million, returned to the special funds. These cases are an attempt to expand prior litigation in which certain transfers made pursuant to the 1992 Budget Act were found to be unlawful (e.g., *California Medical Association v. Hayes*). Actual damages, if any, awarded as a result of these lawsuits could vary significantly and will require a fund-by-fund analysis of the legality of the transfers.

The State is a defendant in *California State Employees Association v. Wilson*, where the petitioners are challenging several budget appropriations in the 1994 and 1995 budget acts. The appropriations mandate the transfer of funds from the State Highway Account to the General Fund to reimburse the General Fund for debt service costs on two rail bond measures. The petitioners contend that the transfers violate the bond acts themselves and are requesting the moneys be returned. The loss to the State's General Fund could be up to $227 million.

In a similar case, *Professional Engineers in California Government v. Wilson*, the petitioners are challenging several appropriations in the 1993, 1994, and 1995 Budget Acts. The appropriations mandate the transfer of approximately $262 million from the State Highway Account and $113 million from the Motor Vehicle Account to the General Fund and appropriate approximately $6 million from the State Highway Account to fund a highway-grade crossing program administered by the Public Utilities Commission. Petitioners contend that the transfers violate several constitutional provisions and request that the moneys be returned to the State Highway Account and Motor Vehicle Account.

The State is a defendant in *Just Say No To Tobacco Dough Campaign v. State of California*, where the petitioners challenge the appropriation of approximately $166 million of Proposition 99 funds in the Cigarette and Tobacco Products Surtax Fund for fiscal years 1989-90 through 1994-95 for programs which were allegedly not health education or tobacco-related disease research. If the State loses, the General Fund and funds from other sources would be used to

reimburse the Cigarette and Tobacco Products Surtax Fund for approximately $166 million.

Federal Audit Exceptions - The State receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

A federal audit report asserts that the State owes the federal government $122 million. This amount represents the federal share of pension reserves used to offset the State's General Fund retirement contributions in fiscal years 1991-92 and 1992-93. The State contends there was no reduction of state costs nor was there a reduction of federal costs.

NOTE 20. DEFERRED COMPENSATION PLANS

The State administers a long-term tax deferred savings program designed to supplement the retirement income of state employees. This program is comprised of a deferred compensation plan (457) in accordance with Section 457 of the Internal Revenue Code and a thrift plan (401k) in accordance with Section 401(k) of the Internal Revenue Code. In addition, this program includes a mandatory retirement plan for employees covered by neither the Public Employees Retirement System (PERS) nor Social Security called the Part-Time, Seasonal and Temporary Plan (PST).

The 457 and 401(k) plans are optional plans for eligible employees. Employees under each plan defer receiving portions of their salaries, thereby deferring taxation on these portions, until they leave state service or face a serious financial emergency. Participants of the 457 and 401(k) plans direct the State to invest the deferred amounts among various investment options. The State makes no contribution to any of these plans and the cost of the program is paid as administrative fees by the program participants. The assets in the 457 plan remain the property of the employer until paid or made available to participants, subject only to the claims of the state's general creditors.

The PST plan is a mandatory plan for employees who are not members of the State's retirement system and who are not covered by social security. The State invests PST plan participants' deferred amounts into an investment option of the State's choosing. The State makes no contribution to the PST plan but the administrative costs to run the PST program are paid by the State.

The State of California has no liability for losses under the plans but does have the responsibility to administer the plans in good faith. As of June 30, 1995, the market value of the three plans was approximately $2.2 billion for the 457 plan, $182 million for the 401(k) plan and $32 million for the PST plan.

NOTE 21. POST RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the State provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. To be eligible for these benefits, first tier plan annuitants must retire from the State on or after attaining age 50 with at least five years of service, and second tier plan annuitants must retire from the State on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from State employment to be eligible to receive these benefits. As of June 30, 1995, approximately 90,000 annuitants were enrolled to receive health benefits and approximately 85,000 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the State generally pays 100 percent of the health insurance cost for annuitants plus 90 percent of the additional premium required for the enrollment of family members of annuitants. Although the State generally pays 100 percent of the dental insurance premium for annuitants, the Government Code does not specify the State's contribution toward dental insurance costs. The State recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits in fiscal year 1994-95 was approximately $297 million. This amount did not increase over the previous year due to a combination of a decrease in health insurance premiums, and increases in the number of eligible annuitants.

NOTE 22. SUBSEQUENT EVENTS

From July 1, 1995 to December 15, 1995, the State issued approximately $461 million in general obligation bonds and $44 million in revenue bonds. Refunding bonds, which are used to refinance existing debt, accounted for $81 million of the general obligation bonds and the entire $44 million of the revenue bonds.

NOTE 23. BUILDING AUTHORITIES

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of $319 million have been eliminated from the combined balance sheet. Instead only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Information on the the revenue bonds and certificates of participation are included in Note 14 and Note 11, respectively. Below is a list and description of

these five building authorities:

The **Oakland State Building Authority** was created in 1994, by a Joint Exercise of Powers Agreement (JPA) between the State, acting through the director of the Department of General Services and the Oakland Redevelopment Agency for the purpose of financing the acquisition of land and to plan, design and complete the construction of the Elihu M. Harris Building, as well as the leasing and financing required to accomplish these goals and administer these tasks. Copies of the financial statements may be obtained from Oakland State Building Authority, 300 Lakeside Drive, Suite 130, Oakland, California 94612-3534.

The **East Bay State Building Authority** was created in 1989, by a JPA between the Department of General Services, the Department of Transportation, and the City of Oakland for the purpose of financing the acquisition of land and the construction of a Department of Transportation state office building and parking facilities. Copies of the financial statements may be obtained from the East Bay State Building Authority, 111 Grand Avenue, Oakland, California 94612.

The **Los Angeles State Building Authority** was created in 1982, by a JPA between the State, acting through the director of the Department of General Services, and the Community Redevelopment Agency of the City of Los Angeles for the purpose of financing the construction of a Los Angeles state office building. Copies of the financial statements may be obtained from the Los Angeles State Building Authority, 300 South Spring Street, Los Angeles, California 90013.

The **San Francisco State Building Authority** was created by a JPA between the State, acting through the director of the Department of General Services, and the Redevelopment Agency of the City and County of San Francisco for the purpose of financing the acquisition of land and the design and construction of a state building. Copies of the financial statements may be obtained from the San Francisco State Building Authority, San Francisco Redevelopment Agency, 770 Golden Gate Avenue, San Francisco, California 94102.

The **California State University and Colleges Headquarters Building Authority** was created by a JPA between the City of Long Beach and the Trustees of the California State University and Colleges for the purpose of acquiring, constructing, maintaining, operating, leasing, and subleasing buildings for public education purposes, including a headquarters building for the Trustees. Copies of the financial statements may be obtained from the California State University and Colleges Headquarters Building Authority, 400 Golden Shore, Suite 102, Long Beach, California 90802-4275.

NOTE 24. PENSION TRUSTS

The State has two retirement systems: the California Public Employees' Retirement System (CalPERS) and the State Teachers' Retirement System (STRS). CalPERS administers four defined benefit contributory retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), the Legislators' Retirement Fund (LRF), and one defined benefit award plan, the Volunteer Firefighters' Length of Service Award Fund. STRS administers one defined benefit contributory retirement plan. The other pension funds are included in the fiduciary fund type. Additional information for each retirement system can be found in each system's separately issued financial report.

Public Employees' Retirement System

Plan Description: The CalPERS administers the Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement plan. Employers participating in the PERF include the State of California, 61 school districts, and 1,249 public agencies. The CalPERS issues a publicly available report that includes financial statements and required supplementary information for the PERF. The financial report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Summary of Significant Accounting Policies:

Basis of Accounting: The PERF uses the accrual basis of accounting. Contributions are actuarially determined and are recorded when due. Investment income is recognized when earned, and expenditures are recorded when incurred.

Investments: PERF investments are presented at fair value. Statutes authorize CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates

market value. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments.

Unfunded Actuarial Accrued Liability: The unfunded actuarial accrued liability of PERF, as adjusted to fair value, based on the Entry Age Normal Cost Method was $2.7 billion at June 30, 1994. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1994 which is the latest available valuation.

Judges' Retirement Funds

Plan Description: The CalPERS administers the Judges' Retirement Fund (JRF) and the Judges' Retirement Fund II (JRF II), which are agent multiple-employer retirement plans. There are 59 employers participating in the JRF and 12 employers participating in the JRF II. The CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the JRF and JRF II. The financial reports may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Summary of Significant Accounting Policies:

Basis of Accounting: The JRF and JRF II use the accrual basis of accounting. Contributions are recorded when due. Investment income is recognized when earned, benefits and administrative expenses are recorded when incurred.

Investments: JRF and JRF II investments are presented at fair value. Statutes authorize the CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates market value.

Unfunded Actuarial Accrued Liability: The unfunded actuarial accrued liability of JRF, as adjusted to fair value, based on the Entry Age Normal Cost Method was $1.3 billion at June 30, 1994. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1994 which is the latest available valuation. No actuarial valuation was performed as of June 30, 1995 for JRF II as the fund commenced operations during fiscal year 1994-95.

Legislators' Retirement Fund

Plan Description: The CalPERS administers the Legislators' Retirement Fund (LRF), an agent single-employer retirement plan. The CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the LRF. The financial report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Summary of Significant Accounting Policies:

Basis of Accounting: The LRF uses the accrual basis of accounting. Contributions are recorded when due. Investment income is recognized when earned, benefits and administrative expenses are recorded when incurred.

Investments: LRF investments are presented at fair value. Statutes authorize CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates market value.

Unfunded Actuarial Accrued Liability: The unfunded actuarial accrued liability of LRF, as adjusted to fair value, based on the Entry Age Normal Cost Method was $14.3 million at June 30, 1994. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1994 which is the latest available valuation.

Funding Progress: Table 25 shows the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 1994, 1993, and 1992.

Table 25

Schedule of Funding Progress for Legislators' Retirement Fund

June 30, 1992 through June 30, 1994 (In Thousands)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3)/(5)
6/30/92	$ 78,600	$ 97,800	$ 19,200	80.4 %	$ 6,200	309.7 %
6/30/93	83,300	97,400	14,100	85.5	5,000	282.0
6/30/94	85,300	99,600	14,300	85.6	5,000	286.0

Volunteer Firefighters' Length of Service Award Fund

Plan Description: The CalPERS administers the Volunteer Firefighters' Length of Service Award Fund (VFF), an agent multiple-employer public employee defined benefit award plan. It currently has 24 participating fire departments. The CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the VFF. The financial report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Summary of Significant Accounting Policies:

Basis of Accounting: The VFF uses the accrual basis of accounting. Contributions are actuarially determined and are recorded when due. Investment income is recognized when earned, and expenditures are recorded when incurred.

Investments: VFF investments are presented at fair value. Statutes authorize CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. The VFF maintains certain deposits, cash equivalents, and other investments with financial institutions. Fair values of investments are based on published market prices and quotations from major investment brokers, as available. Mortgage loans are stated at fair value. Fair value is determined based on future principal and interest payments and are discounted at prevailing interest rates for similar investments. Short-term and pooled investments are stated at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates market value.

Unfunded Actuarial Accrued Liability: The unfunded actuarial accrued liability, as adjusted to fair value, is calculated based on the Unit Credit Actuarial Method. The VFF did not have an unfunded actuarial accrued liability, but instead had $109,859 net assets available in excess of the actuarial accrued liability at June 30, 1994. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1994 which is the latest available valuation.

State Teachers' Retirement Fund

Plan Description: The State Teachers' Retirement System (STRS) is a cost-sharing multiple-employer retirement system that provides pension benefits to teachers and certain other employees of the California public school system. At June 30, 1995, the STRS had approximately 1,150 contributing employers (school districts). The State is a nonemployer contributor to the STRS. Membership in the pension plan is mandatory for all employees who hold a teaching certificate and who are eligible for membership. The STRS issues a publicly available report that includes financial statements and required supplementary information for the STRS. The financial report may be obtained at the State Teachers' Retirement System, Accounting Division, 7667 Folsom Blvd., 2nd Floor, Sacramento,

California 95826.

Summary of Significant Accounting Policies:

Basis of Accounting: The accounting records of the STRS are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the STRS retirement program.

Investments: The STRS invests in debt securities including obligations issued by the United States government, United States corporations with a credit rating of BBB or above, foreign corporate issues with a credit rating of A or above, government securities issued by countries contained in the Salomon Brothers World Government Bond Index, and notes collateralized by first mortgages and deeds of trust for real estate located in the United States. The STRS also invests in equities, including common and preferred stock of corporations domiciled in the United States, mutual funds, units of participation in commingled index funds, international securities, and other investments.

The majority of the securities held in the investment portfolio at June 30, 1995, is in the custody of or controlled by the State Street Bank and Trust Company, the STRS' master custodian.

All investments are recorded at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair market value is computed by management, based on market yields and average maturity dates of comparable quoted securities.

Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values represent the most recent independent appraisals (conducted in fiscal year 1994-95), updates to 1993-94 appraisals of properties purchased prior to fiscal year 1994-95, and current value estimates for properties purchased in the current year. Short-term investments are reported at cost, which approximates fair value.

Unfunded Actuarial Accrued Liability: The unfunded actuarial accrued liability of STRS was $8.4 billion at June 30, 1993. The actuarial liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1993 which is the latest available valuation. No actuarial report is prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations. The actuarial report for the year ended June 30, 1995 will be completed in the Spring of 1996.

NOTE 25. DISCRETELY PRESENTED COMPONENT UNITS

A. University of California

The University of California (UC) was founded in 1868 as a public, State-supported institution. The California State Constitution grants the UC full powers of government, subject only to legislative control necessary to ensure the security of its funds and compliance with certain administrative requirements. The majority of the 26-member independent governing board—the Regents of the University of California—are appointed by the Governor and approved by the state Senate. In addition, various UC programs and capital outlay projects are funded through appropriations from the State's annual Budget Act. The UC is discretely presented in the State's general purpose financial statements. Copies of the UC's separately issued financial statements may be obtained at the University of California, Corporate Accounting Office, 21st Floor, 300 Lakeside Drive, Oakland, California 94612-3550.

Basis of Presentation

The financial statements of the UC have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and the Governmental Accounting Standards Board.

The UC has entered into various capital lease agreements with the State Public Works Board (PWB). The PWB issues revenue bonds to finance the construction of these leased facilities. The PWB, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments. On June 30, 1995, these bonds and the related net investment in direct financing leases, totaling approximately $1.1 billion and $831 million, respectively are presented in the enterprise fund type. The UC records the liability and the related trustee investments and fixed assets in the accompanying financial statements. For the year ended June 30, 1995, the outstanding liability, recorded as capital leases, was $1.1 billion. This amount represents the total liability for the revenue bonds issued by the Public Works Board to finance the construction of facilities for the UC .

The UC receives an annual appropriation from the State's General Fund. For the year ended June 30, 1995, approximately $1.7 billion was accrued or disbursed from the General Fund to the UC. This amount is reported as expenditures in the General Fund and as revenues in the UC unrestricted current funds. Since this amount originally came from General Fund revenues and was ultimately spent in the UC funds, revenues and expenditures in the amount of $1.7 billion are reported twice in the accompanying financial statements (See Note 1A).

Cash and Pooled Investments and Other Investments

Investments of all funds are stated at cost at the date of acquisition or, in the case of gifts, at quoted market value at the date of donation, with the exception of University of California Retirement System investments which are stated at market value.

Real estate is stated at depreciated value.

Investments include equities, high-yield equities, bonds, and real estate. The equity portion of the investment portfolio includes common stocks, several venture capital partnerships, and emerging market funds. The UC actively participates in a securities lending program as a means to augment income. At June 30, 1995, securities with a value of approximately $4.0 billion were on loan to brokerage firms.

Included in temporary investments is the UC's Short-Term Investment Pool. Participating funds earn income based on their average investment in the pool. This pool invests primarily in U.S. Treasury securities, and prime grade commercial paper and short-term corporate notes; at June 30, 1995, these investments had a book value of $2.8 billion and a market value of $2.9 billion. The pool also invests in loans to faculty members for housing purchases under the UC's Mortgage Origination Program. The loans have terms up to 30 years; principal outstanding at June 30, 1995, was $159 million.

Investments other than temporary investments include equities, bonds, high-yield equities, and real estate. Approximately 97 percent of the investments are held by the regents' custodian bank as an agent for the regents in the name of the custodian bank's nominee. Table 26 presents the investments as of June 30, 1995.

Table 26

Schedule of University of California Investments
June 30, 1995 (In Thousands)

	Endowment and Similar Funds		University of California Retirement System Funds	
Investment	**Carrying Value**	**Market Value**	**Cost**	**Market Value**
Equities	$ 606,966	$ 1,440,923	$ 6,105,255	$ 14,340,074
Bonds	383,378	404,162	4,179,318	4,855,227
High yield securities	124,628	222,857	1,022,531	1,709,345
Mortgage loans and notes	2,740	2,483	716	637
Miscellaneous investments	3,640	3,640	1,783,161	1,918,255
Real estate	5,330	—	—	—
Total	**$ 1,126,682**	**$ 2,074,065**	**$ 13,090,981**	**$ 22,823,538**

Cash deposits held in bank accounts at June 30, 1995, totaled approximately $9 million. Of this amount, $500,000 was insured by the FDIC.

Cash and temporary investments of $403 million included in the plant funds group are held by trustees and pledged for future payments of principal, interest, construction, and renewal and replacement in accordance with various indenture requirements and other long-term debt agreements.

Due from Primary Government

The due from primary government account balance reflects $224 million that is due to UC for administrative expenses from the General Fund and special revenue funds.

Revenue Bonds and Other Long-Term Debt

Revenue bonds and certificates of participation are secured by the revenues of the individual projects as well as certain other UC revenues.

During the year, the UC issued approximately $104 million in Research Facilities Revenue Bonds for the construction and equipping of research facilities at three campuses.

Table 27 shows the aggregate maturities of long-term debt for each of the five fiscal years subsequent to June 30, 1995.

Table 27

Schedule of University of California Long-Term Debt Maturities
(In Thousands)

Year Ending June 30	Amount
1996	$ 176,469
1997	222,997
1998	144,351
1999	127,358
2000	128,247

The above liabilities do not include $1.1 billion of various defeased liabilities. Investments which have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the accompanying balance sheet.

University of California Retirement System

Plan Description: Most UC career employees participate in the University of California Retirement System (UCRS). UCRS consists of a defined benefit plan (the Retirement Plan) funded with UC and employee contributions, a defined benefit plan for UC employees who elected early retirement under the PERS Voluntary Early Retirement Incentive Program (PERS-VERIP), and two defined contribution plans with several investment portfolios funded with employee and elective contributions. At June 30, 1995, the Retirement Plan had over 91,300 active members, 80,200 of whom also participate in Social Security.

Investment Matters: The UCRS has investments in equities, bonds, high-yield equities, mortgage loans, and other miscellaneous investments. The UCRS' investments are reported at market value.

Actuarial Present Value of Accumulated Plan Benefits: Actuarial methods and assumptions include the expected return on actuarial value of assets at 7.5 percent, as well as valuing actuarial assets based on a five-year moving average of market values.

The actuarial present value of accumulated UCRS plan benefits at June 30, 1995, was $12.3 billion, composed of vested benefits of $11.9 billion and nonvested benefits of $324 million. The actuarial present value excludes future salary increases while actual future benefits will be based upon then-current salary levels. When projections for future salary increases are included in this calculation, the actuarial present value of accumulated plan benefits is $14.9 billion. Net assets available for benefits were $20.1 billion at June 30, 1995.

Funding Policy: The UCRS is funded through the UC and employee contributions. The pension expense related to the UCRS was $17.9 million for fiscal year 1994-95. In 1984, the State agreed to pay $66.5 million in actuarially equivalent annual installments over 30 years. In 1989-90, the State agreed to pay $57.2 million in actuarially equivalent annual installments over 30 years. At June 30, 1995, the amount due from the State was $110 million. That amount is recorded as a receivable from the State and as an interfund payable and receivable between the UC's unrestricted current and retirement plan funds.

Certain employees participate in the Public Employees' Retirement Fund (PERF). Pension expense paid to PERF was $4.2 million for fiscal year 1994-95. For those employees who participated in PERF, a special defined benefit provision plan, providing lifetime supplemental retirement income and survivor benefits, was provided to those who elected early retirement under the Voluntary Early Retirement Incentive Plan. The cost of the plan is to be paid into UCRS annually by the UC and three major Department of Energy laboratories in actuarially determined installments through 1996. Pension expense related to this plan for the year ended June 30, 1995, was $2.7 million. The remaining $2.7 million to be paid into UCRS over the next year is not reflected in the UC's financial statements.

Postretirement Health Care Benefits

In addition to pension benefits, the UC provides certain health plan benefits to retired employees. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive UC contributions for those benefits. There are more than 33,800 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors in fiscal year 1994-95 was $98 million.

Commitments and Contingencies

As of June 30, 1995, the UC had authorized construction projects totaling $695 million.

The UC is contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of its activities. Several of these claims are related to medical malpractice. The UC maintains self-insurance reserves for medical malpractice claims, workers' compensation claims, and certain other risks. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by an independent insurer. UC management and General Counsel are of the opinion that the outcome of such matters will not have a material effect on the financial statements.

Rental expenditures for noncancelable operating leases totaled $68 million during fiscal year 1994-95. Minimum required payments for fiscal year 1995-96 are $35 million. These payments will decrease in subsequent years.

B. Special Purpose Authorities

The **State Compensation Insurance Fund** (SCIF) is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, county, city, school district, or other public corporations. The SCIF is legally separate from the State. It is a component unit of the State because the State appoints all five voting members of the SCIF's governing board and has the authority to approve or modify the budget for support of the SCIF to run the workers' compensation benefit program. Copies of the SCIF's financial statements may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

State legislation created various **Conduit Financing Authorities** to provide certain private and public entities with a low-cost source of financing for use in purchasing land or equipment, constructing facilities, or providing low-cost student loans or housing that are deemed to be in the public interest. This debt is secured solely by the credit of the private and public entities and, except for the Pollution Control Bonds administered by the State Treasurer's Office, is administered by trustees independent of the State. The conduit financing authorities are legally separate from the State. The governing boards of the conduit financing authorities either consist of state officials serving as required by law or the State appoints a voting majority of the governing board. Below is a list and description of the conduit financing authorities:

The *California Alternative Energy and Advanced Transportation Financing Authority* was expanded by Chapter 1218, Statutes of 1994 to include the financing and development of advanced transportation technologies. Originally called the California Alternative Energy Source Financing Authority, this authority was established by Chapter 908, Statutes of 1980, for the purpose of providing California industry an alternative method of financing the construction and installation of facilities using alternative

methods and sources of energy. At June 30, 1995, the California Alternative Energy and Advanced Transportation Financing Authority had approximately $101 million of debt outstanding, which is not debt of the State. Copies of the financial statements may be obtained from the California Alternative Energy and Advanced Transportation Financing Authority, 915 Capitol Mall, Room 466, Sacramento, California 95814.

The *California Pollution Control Financing Authority* was established by Chapter 1257, Statutes of 1972, for the purpose of providing California businesses with a reasonable method of financing pollution control facilities and to foster compliance with government imposed environmental standards and requirements. At June 30, 1995, the California Pollution Control Financing Authority had approximately $4.2 billion of debt outstanding, which is not debt of the State. Copies of the financial statements may be obtained from the California Pollution Control Financing Authority, 915 Capitol Mall, Room 466, Sacramento, California 95814.

The *California Health Facilities Financing Authority* was established by Chapter 1033, Statutes of 1979, to issue revenue bonds, to assist qualified private nonprofit corporations or associations, counties and hospital districts in financing or refinancing the construction, equipping, or acquiring of health facilities. At June 30, 1995, the California Health Facilities Financing Authority had approximately $4.7 billion of outstanding debt, which is not debt of the State. Copies of the financial statements may be obtained from the California Health Facilities Financing Authority, 915 Capitol Mall, Suite 590, Sacramento, California 95814.

The *California Educational Facilities Authority* was established by Chapter 1010, Statutes of 1976, for the purpose of issuing revenue bonds to assist private educational institutions of higher learning in the expansion and construction of nonsectarian educational facilities. At June 30, 1995, the California Educational Facilities Authority had approximately $1.3 billion of outstanding debt, which is not debt of the State. Copies of the financial statements may be obtained from the California Educational Facilities Authority, 915 Capitol Mall, Suite 470, Sacramento, California 95814.

The *California School Finance Authority* was established by Chapter 1438, Statutes of 1985, for the purpose of providing loans to school and community college districts to assist in obtaining equipment and new school sites, constructing new facilities, reconstructing existing facilities, and acquiring portable and relocatable buildings. At June 30, 1995, the California School Finance Authority had approximately $21 million in outstanding debt, which is not debt of the State. Copies of the financial statements may be obtained from the California School Finance Authority, 915 Capitol Mall, Suite 470, Sacramento, California 95814.

The *California Student Loan Authority* was created by Chapter 1357, Statutes of 1980, for the purpose of providing funds through revenue bonds in order to allow California

college students greater access to low-cost federally reinsured student loans. Copies of the financial statements may be obtained from the California Student Loan Authority, 915 Capitol Mall, Suite 470, Sacramento, California 95814.

The *California Housing Finance Agency* was created for the purpose of meeting the housing needs of persons and families of low and moderate income. Copies of the financial statements may be obtained from California Housing Finance Agency, 1121 L Street, Sacramento, California 95814.

The *California Economic Development Financing Authority* was created by Chapter 753, Statutes of 1994, for the purpose of issuing revenue and general obligation bonds to finance business development and public infrastructure projects. Copies of the financial statements may be obtained form the California Economic Development Financing Authority, 801 K Street, Suite 1600, Sacramento, California 95814.

District Authorities, which were created by state legislation, are legally separate from the State, provide services outside of the State and meet the other criteria of discretely presented component units. Below is a list and description of the district authorities:

District Agricultural Associations are authorized by Chapter 3 of the California Food and Agricultural Code to hold fairs, expositions and exhibitions for the purpose of exhibiting all of the industries and industrial enterprises, resources and products of the State. The District Agricultural Associations are also authorized to construct, maintain , and operate recreational and cultural facilities of general public interest. Copies of the financial statements may be obtained from the Department of Food and Agriculture, Division of Fairs and Expositions, 1010 Hurley Way, Suite 200, Sacramento, California 95825.

The *San Joaquin River Conservancy* was created by Chapter 1012, Statutes of 1992, for the purpose of acquiring and managing public lands within the San Joaquin River Parkway. Copies of the financial statements may be obtained from the California Department of Parks and Recreation, 1416 Ninth Street, Room 1040, P.O. Box 942892, Sacramento, California 94296-0001.

Table 28 and Table 29 present summary financial statements for discretely presented component units.

Table 28

Condensed Balance Sheet - Special Purpose Authorities
June 30, 1995 (In Thousands)

	SCIF	Conduit Financing Authorities	District Authorities	Total
ASSETS				
Current assets	$ 747,795	$ 433,707	$ 30,405	$ 1,211,907
Investments	6,048,855	870,431	1,781	6,921,067
Due from primary government	6,668	—	—	6,668
Advances and loans receivable	—	3,254,231	—	3,254,231
Fixed assets	215,560	165	324,342	540,067
Total Assets	**$ 7,018,878**	**$ 4,558,534**	**$ 356,528**	**$ 11,933,940**
LIABILITIES				
Current liabilities	$ 681,974	$ 286,319	$ 7,309	$ 975,602
Benefits payable	4,891,291	—	—	4,891,291
Revenue bonds payable	—	3,750,980	—	3,750,980
Contracts and notes payable	—	—	44,925	44,925
Total Liabilities	**5,573,265**	**4,037,299**	**52,234**	**9,662,798**
FUND EQUITY				
Retained earnings				
Reserved for regulatory requirements	100,000	369,996	—	469,996
Unreserved	1,345,613	151,239	304,294	1,801,146
Total Fund Equity	**1,445,613**	**521,235**	**304,294**	**2,271,142**
Total Liabilities and Fund Equity	**$ 7,018,878**	**$ 4,558,534**	**$ 356,528**	**$ 11,933,940**

Table 29

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Special Purpose Authorities
Year Ended June 30, 1995 (In Thousands)

	SCIF	Conduit Financing Authorities	District Authorities	Total
Operating Revenues				
Earned premiums (net)	$ 1,456,788	—	—	$ 1,456,788
Other revenue	—	$ 322,708	$ 101,634	424,342
Total Operating Revenues	**1,456,788**	**322,708**	**101,634**	**1,881,130**
Operating Expenses				
Benefit payments	1,034,403	—	—	1,034,403
Interest expense	—	234,404	—	234,404
Other operating expenses	198,889	55,222	109,770	363,881
Total Operating Expenses	**1,233,292**	**289,626**	**109,770**	**1,632,688**
Operating income (Loss)	**223,496**	**33,082**	**(8,136)**	**248,442**
Nonoperating Revenues (Expenses)				
Interest revenue	501,151	732	71	501,954
Other nonoperating revenues (expenses)	—	—	3,455	3,455
Net Nonoperating Revenues (Expenses)	**501,151**	**732**	**3,526**	**505,409**
Operating Transfers In (Out)	**—**	**(190)**	**3,942**	**3,752**
Net Income (Loss)	**724,647**	**33,624**	**(668)**	**757,603**
Dividends paid	(339,092)	—	—	(339,092)
Retained Earnings, July 1, 1994, restated	**1,060,058**	**487,611**	**304,962**	**1,852,631**
Retained Earnings, June 30, 1995	**$ 1,445,613**	**$ 521,235**	**$ 304,294**	**$ 2,271,142**

Significant Accounting Policies

The financial statements of the State Compensation Insurance Fund have been prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of the State of California. These accounting practices represent a comprehensive basis of accounting other than GAAP. These statements do not include, as due from primary government, the amount of worker's compensation claims which will be paid by the State. As a result, the due from primary government is less than the due to component units by $753 million. The Board of Directors of the State Compensation Insurance Fund declares dividends payable to policy holders who meet the premium volume and loss experience criteria established by the Board. The dividends paid shown on the Statement of Revenues, Expenses and Changes in Retained Earning/Fund Balances for Special Purpose Authorities are for these dividends paid to policy holders. The financial statements of the State Compensation Insurance Fund, included as a component unit, are as of and for the year ended December 31, 1994.

The financial statements of the District Agricultural Associations have been prepared in conformance with the reporting requirements of the State Department of Agriculture. These reporting requirements are not in conformance with GAAP. The financial statements of the District Agricultural Associations, included as component units, are as of and for the year ended December 31, 1994.

The accounts of the remaining special purpose authorities are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Fixed Assets—Property and Depreciation

Depreciation on buildings for the State Compensation Insurance Fund is computed on a straight-line basis over the estimated useful lives of the buildings (40 to 50 years). Data processing equipment owned by the State Compensation Insurance Fund is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the equipment (3 to 5 years).

Cash and Pooled Investments and Investments

Cash in excess of needs of the various authorities are invested in the State Treasurer's Pooled Investment program. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, Canadian government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

All investments reported as of June 30, 1995, were insured or registered in an authority's name or held by an authority or an agent of an authority in the authority's name. Table 30 presents the carrying value and market value of the investments of the special purpose authorities that were reported to the State on June 30, 1995.

Table 30

Schedule of Investments - Special Purpose Authorities
June 30, 1995 (In Thousands)

Investments	Carrying Value	Market Value
Government Securities:		
U.S. and U.S. agency	$ 3,850,431	$ 3,788,465
Canadian government	44,611	45,980
State and municipal	25,092	23,632
Commercial paper	9,781	9,781
Corporate bonds	2,189,505	2,044,044
Investment agreements	745,787	745,787
Money market	35,940	35,940
Other	19,920	19,920
Total	**$ 6,921,067**	**$ 6,713,549**

Included in the investments of the special purpose authorities are the investments of the State Compensation Insurance Fund as of and for the year ended December 31, 1994. The State Compensation Insurance Fund represents 93 percent of the carrying value and 92 percent of the market value of the authorities' investments.

Due from the Primary Government

The due from the primary government account balance reflects $6.7 million that is due to the State Compensation Insurance Fund from the State's General Fund, and $223.5 million that is due to the UC for administrative expenses from the General Fund and special revenue funds.

Restricted Assets

Cash and pooled investments of $340 million, investments of $853.7 million, and other assets of $98 million were restricted for debt service.

Fixed Assets

Table 31 presents property and data processing equipment for the authorities.

Table 31

Schedule of Fixed Assets - Special Purpose Authorities
June 30, 1995 (In Thousands)

Fixed Assets	Amount
Real estate:	
Office building	$ 329,787
Land	38,049
Furniture and equipment	53,120
Construction in progress	529
Total Fixed Assets	**421,485**
Less: Accumulated depreciation	(86,345)
Net Fixed Assets	**$ 335,140**

The schedule of fixed assets does not include the unaudited fixed assets of the district agricultural associations totaling approximately $205 million.

Revenue Bonds

Under State law, the California Housing Finance Agency (CHFA) may issue revenue bonds. The bonds issued by the CHFA allow the State to make loans to finance housing developments and to finance the acquisition of homes by low to moderate income families. When the housing development and home loans financed by the revenue bonds are fully paid, the housing developments and homes become the property of private individuals or entities. Principal and interest on the revenue bonds issued by the CHFA are payable from its earnings.

Changes in Bond Indebtedness

Table 32 summarizes the changes in revenue bond debt of these authorities for the year ended June 30, 1995.

Table 32

Schedule of Changes in Revenue Bond Debt - CHFA
Year ended June 30, 1995 (In Thousands)

	Amount
Balance July 1, 1994	$ 3,166,634
Additions	1,378,835
Deduction	(794,488)
Balance June 30, 1995	**$ 3,750,981**

Debt Service Requirements

Table 33 shows the debt service requirements for revenue bonds, excluding interest.

Table 33

Schedule of Debt Service Requirements - CHFA
(In Thousands)

Year Ending June 30	Amount
1996	$ 44,665
1997	54,910
1998	62,015
1999	63,860
2000	65,326
Thereafter	3,473,539
Total	**$ 3,764,315**

Total interest payments for the year ended June 30, 1995 was $223 million.

Fiscal Year 1994-95 Defeasances

In December 1993, the CHFA issued Single Family 1993 Series B Home Mortgage Revenue Bonds to refund 1978 Series A, B, C, and D, 1979 Series A and B, and 1991 Series A Home Ownership and Home Improvement Revenue Bonds.

In February and in June 1994, the CHFA issued Housing Revenue Bonds (Insured), 1994 Series A and 1994 Series C and D to refinance development loans originally funded with the proceeds of 1985 A, 1985 B, and 1987 A bonds of the same indenture. Also in June 1994, the CHFA delivered Multi-Unit Rental Housing Revenue Bonds II 1994 Series A for which escrow receipts were sold in June 1992 to redeem 1984 Series A bonds of that indenture when they became subject to optional redemption.

As proceeds from the bonds sold or delivered in June 1994 were used to redeem bonds on August 1, 1994, the CHFA considered

these transactions as in-substance defeasances and, accordingly, removed from the combined balance sheet the bonds payable and related accounts and the assets acquired to effect the redemptions. Total bonds defeased were $13.7 million for the Housing Revenue Bonds (Insured) Indenture and $11.7 million for the Multi-Unit Rental Housing Revenue Bonds II Indenture.

In August 1993, the CHFA redeemed a portion of the bonds outstanding of the Multi-Unit Rental Housing Revenue Bonds I 1981 Series B Indenture. In February 1994, the CHFA redeemed all remaining bonds outstanding of the Multi-Unit Rental Housing Revenue Bonds I 1981 Series A and 1981 Series B with sources of funds not currently held under the lien of the indenture.

On March 1, 1994, the CHFA redeemed Insured Housing Revenue Bonds 1985 Series A and 1985 Series B in connection with the issuance of the 1994 Series A refunding bonds, held under the same indenture.

Commitments

As of June 30, 1995, the CHFA has outstanding commitments to provide $1.8 million for loans under the multifamily Housing Revenue Bonds (Insured) Program, $18.9 million for loans under the Multi-Unit Rental Housing Revenue Bonds I Program, and $166 million for loans under the Home Mortgage Revenue Bonds Program.

At December 31, 1994, State Compensation Insurance Fund (SCIF) was committed under the terms of renewable leases for 18 offices. Table 34 summarizes the minimum annual rental commitments.

Table 34

Schedule of Lease Commitments - SCIF
(In Thousands)

Year Ending June 30	Amount
1995	$ 17,581
1996	17,023
1997	13,412
1998	6,722
1999	3,487
Thereafter	2,180
Total	**$ 60,405**

Subsequent Events

From July 1, 1995 to December 15, 1995, the California Housing Finance Agency and the California Educational Facilities Authority, issued approximately $366 million and $38 million respectively, in revenue bonds. Refunding bonds, which are issued to refinance existing debt, accounted for approximately $75 million and $21 million, respectively, of the bonds issued.

From July 1, 1995 to December 15, 1995, the California

Economic Development Financing Authority, the California Health Facilities Financing Authority, and the California Pollution Control Financing Authority issued approximately $21 million, $15 million and $61 million, respectively, in revenue bonds.

From July 1, 1995 to December 15, 1995, the California Health Facilities Financing Authority issued approximately $5 million in long term notes.

Table 35 summarizes the California Housing Finance Agency bonds redeemed subsequent to June 30, 1995.

Table 35

Schedule of Redeemed Bonds
(In Thousands)

Programs	Amount
Redeemed on August 1, 1995	
Multi-Unit Rental Housing Revenue Bonds I	$ 9,555
Multi-Unit Rental Housing Revenue Bonds II	1,966
Multifamily Rehabilitation Revenue Bonds	105
Housing Revenue Bonds (Insured)	11,970
Home Mortgage Revenue Bonds	60,370
Home Ownership Mortgage Bonds	1,591
Redeemed on September 1, 1995	
Home Mortgage Revenue Bonds	7,745

NOTE 26. JOINT VENTURE

A joint venture is an entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

The **Capital Area Development Authority** (CADA) was created in 1978 by the Joint Exercise of Powers Agreement (JPA) between the State of California (State) and the City of Sacramento (City) for the location of state buildings and other improvements in the central City. The CADA is a public entity separate from the State and the City and is administered by a board of five members: two members appointed by the State, two members appointed by the City, and the fifth member appointed by the affirmative vote of at least three of the other four members of the board. The State designates the chairperson of the board. Although the State does not have an equity interest in the CADA, it has an ongoing financial interest in the CADA. Based upon the appointment authority, the State has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the State. The State subsidizes the CADA's operations by leasing the lands to the CADA without consideration; however, the State is not obligated to do so. Separately issued financial statements of the CADA can be obtained from its administrative office at 1230 N Street, Suite 200, Sacramento, California 95814.

If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapse.

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The budgets reported in the Statements of Revenues, Expenditures, and Changes in Fund Balances, Budgetary Basis-Budget and Actual, have been adjusted to reflect the differences between the financial reporting methodology and legislative appropriations to correctly state the budget variance.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations.

B. Reconciliation of Budgetary Basis with GAAP Basis

1. Budgeted Revenues

In the annual budgeting process, the Governor estimates revenues. However, revenues are not included in the budget adopted by the Legislature.

2. General Fund Reconciliation - Budgetary to GAAP

The State annually reports its financial condition based on GAAP (GAAP basis) and also based on the State's budgetary provisions (budgetary basis). The State of California Annual Report (the budgetary/legal basis financial report) is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balances–Budget and Actual (Budgetary Basis) is compiled on the budgetary basis. This statement is reconciled with the general purpose financial statements prepared in accordance with GAAP as shown in Table 2. The primary differences between the budgetary basis accounting practices and GAAP are as follows:

Advances and Loans Receivable - Generally, loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to this loan activity caused a net increase to the fund balance of $175 million.

Escheat Property - As discussed in Note 1K, a liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is required to be reported. This adjustment caused a $241 million decrease to the fund balance.